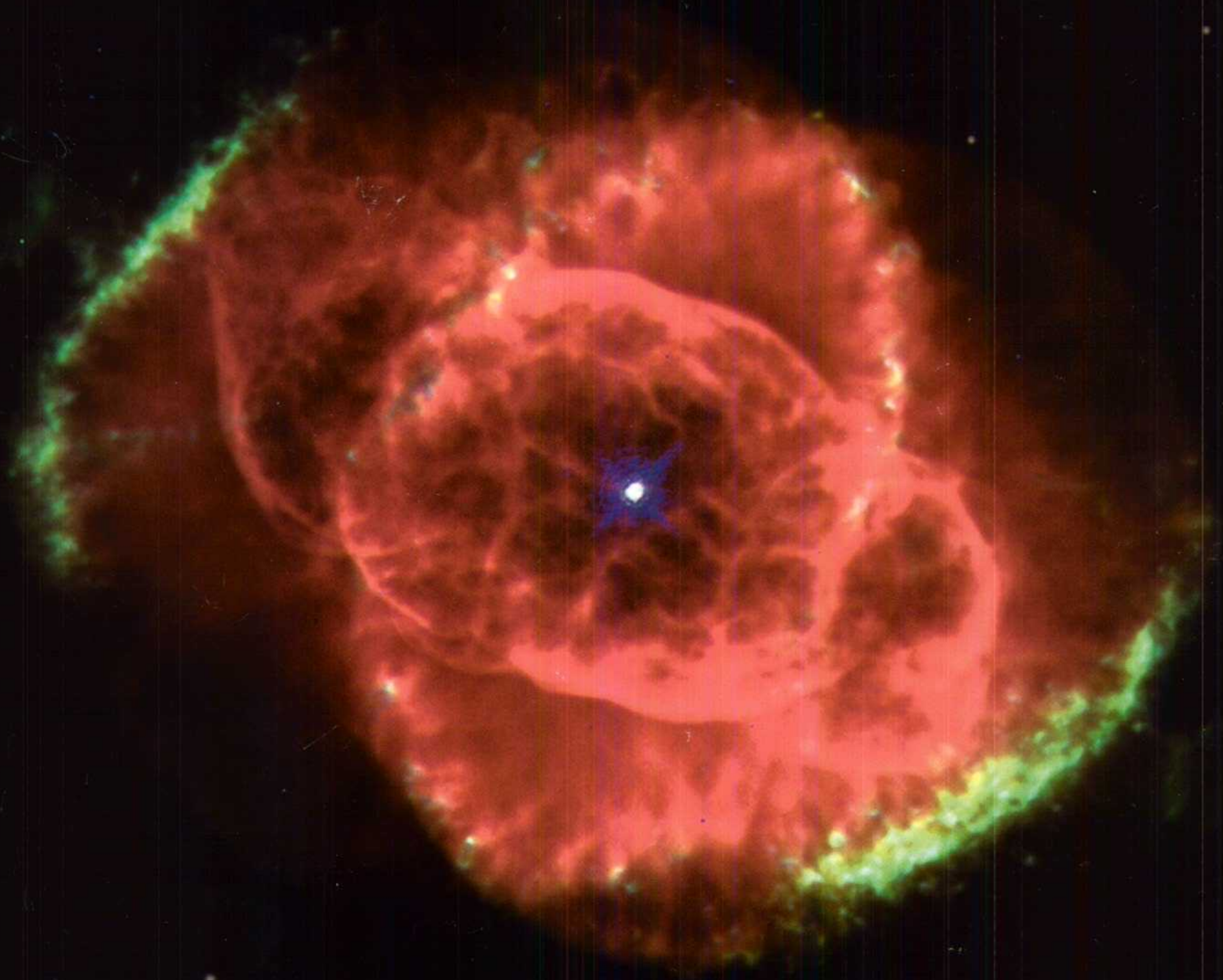
PEPSICO, INC. 1996



AIMING HIGH
MORE FOCUSED
THAN EVER BEFORE

The Hubble has given astronomers a much clearer, more focused "window on the universe." In the same way, we've tried to look at PepsiCo with even greater focus and clarity.

Financial Highlights

PepsiCo, Inc. and Subsidiaries

($ in millions except per share amounts)	**December 28, 1996**	December 30, 1995	**Percent Change**
Summary of Operations			
Net sales	**$31,645**	30,255	**+5**
Ongoing(a)			
Operating profit	**$ 3,368**	3,507	**-4**
Net income	**$ 1,865**	1,990	**-6**
Per Share	**$ 1.17**	1.24	**-6**
Reported(b)			
Operating profit	**$ 2,546**	2,987	**-15(c)**
Net income	**$ 1,149**	1,606	**-28(c)**
Per Share	**$ 0.72**	1.00	**-28(c)**
Cash Flows			
Provided by operating activities	**$ 4,194**	3,742	**+12**
Free cash flow(d)	**$ 1,544**	1,095	**+41**
Share repurchases	**$ 1,651**	541	**+205**

(a) Excluded unusual impairment, disposal and other charges of $822 ($716 after-tax or $0.45 per share) in 1996 and $520 ($384 after-tax or $0.24 per share) in 1995 (see Note 3).
(b) Included unusual charges in 1996 and 1995 (see (a) above).
(c) These comparisons are not meaningful because of the unusual charges in 1996 and 1995 (see (a) above).
(d) Defined as net cash provided by operating activities reduced by cash dividends paid and adjusted for the following investing activities : capital spending, refranchising of restaurants, sales of property, plant and equipment and other, net.

Contents

Above:
This spiral galaxy is in the Fornax Cluster, located about 60 million light-years from Earth. One light-year is approximately 5.8 trillion miles.

Cover:
"Cat's Eye Nebula," estimated to be 1,000 years old and 3,000 light-years away, is in the northern constellation Draco.

Dear Friends:

PepsiCo Will Become Two Companies

We're pleased to tell you that early in 1997 we announced plans to split PepsiCo into two separate companies. Essentially, we'll spin off our restaurants to PepsiCo shareholders as a stand-alone corporation. That will give investors much greater flexibility to invest in either (or both) of two excellent global companies: a packaged goods company called PepsiCo, comprising Pepsi-Cola and Frito-Lay, and a yet-to-be-named restaurant company that will include KFC, Pizza Hut and Taco Bell.

It was a tough decision. Restaurants have been a very good business for PepsiCo for many years, contributing to our growth and creating value for shareholders.

Still, as we looked closely at PepsiCo and all its component parts, our course became clear. Restaurants and packaged goods are very different businesses. In today's marketplace, too different, in our opinion, to benefit by having a common corporate parent. We're convinced each will better prosper with its own dedicated corporate structure and management.

So, by the end of 1997, the restaurant companies will be in a separate corporation. Shares in that corporation will be distributed to PepsiCo shareholders in what is expected to be a tax-free transaction.

This is my first Annual Report as your Chairman and CEO, and it comes at the end of a tough year, certainly by PepsiCo standards.

On one hand, we earned more than a billion dollars, we generated record cash flow and many of our businesses posted big gains in sales, profit and market share. On the other, our total earnings declined, our international beverage business had big problems and our U.S. restaurants underperformed.

We also made some major strategic decisions: to spin off our restaurant business and to sell our restaurant supply distribution company and smaller restaurant chains — but more about that later.

Now, I'm sure you have lots of questions about our 1996 performance. Like, what happened with international beverages, especially in Latin America? And, just what rate of growth does your company hope to achieve?

Fair enough. In this report I'll talk about 1996. Then I'd like to share some broader thoughts on our aspirations as a corporation and how we intend to fulfill them.

And that's where the Hubble Telescope comes in. For most of human history we stared at the heavens through a haze called the atmosphere. Then the Hubble came along, offering us a window on the universe, clearer, sharper, more revealing than ever before.

Well, in that same way, we've tried to look at PepsiCo from a new perspective. We've always viewed

Roger A. Enrico
Chairman and Chief Executive Officer

self-examination as healthy, but this year we wanted to take a different kind of look: further, deeper and with a lot more focus and clarity. And, with all due respect to our astronomer friends, what we see is pretty exciting stuff.

I'll get to that in a moment. But first a word about last year.

A Look at 1996

For the year, our sales rose 5%, to nearly $32 billion, but earnings fell 28% to $1.1 billion. If you exclude one-time charges, earnings declined 6%, to $1.9 billion.

On the plus side:

- We contributed far more to the growth of U.S. supermarket sales than any other company. Of the top-20 manufacturers, Frito-Lay's supermarket sales grew fastest; Pepsi-Cola ranked number two.
- Our free cash flow grew to a very robust $1.5 billion.
- We repurchased 54 million shares of PepsiCo stock.
- Pepsi-Cola North America increased sales by 4% and operating profit by 14%.
- Frito-Lay worldwide posted a 13% gain in both sales and profit.
- PepsiCo Restaurants International posted a 10% sales gain and a whopping 37% increase in profit.
- And in a sluggish U.S. restaurant industry, KFC increased same store sales by a remarkable 6%, making it one of the best-performing big chains in the country.

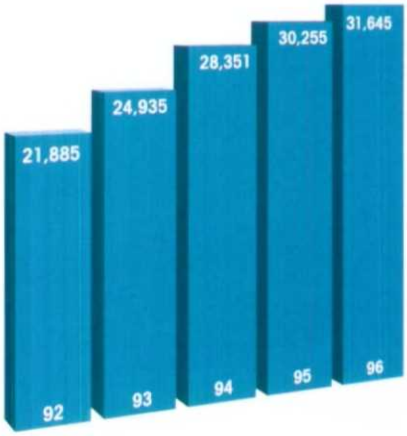
On the minus side:

- Pepsi-Cola International had dramatic losses, as we found it necessary to completely restructure the business, our Venezuelan bottler was bought by our competitor, and a big bottler in Brazil and Argentina in which we had an ownership interest ran into major financial difficulties.
- Pizza Hut and Taco Bell suffered volume declines, resulting in lower sales and profits in our U.S. restaurant business.

So, despite disappointing profits, in certain respects PepsiCo did okay in 1996. Many of our businesses, including our biggest, prospered. Most of the negatives, thankfully, were things we don't see reoccurring. And we took some important steps to help us make even more of our abundant resources.

But what about the longer term? What about the bigger picture?

Net Sales
$ in Millions



Year-End Market Price of Stock
In $

PepsiCo in Perspective

Well, looking back you don't need a telescope to see that PepsiCo has a distinguished history of growth. For more than 30 years our sales, ongoing earnings and shareholder returns have grown on average about 14% a year. Few corporations anywhere can match that.

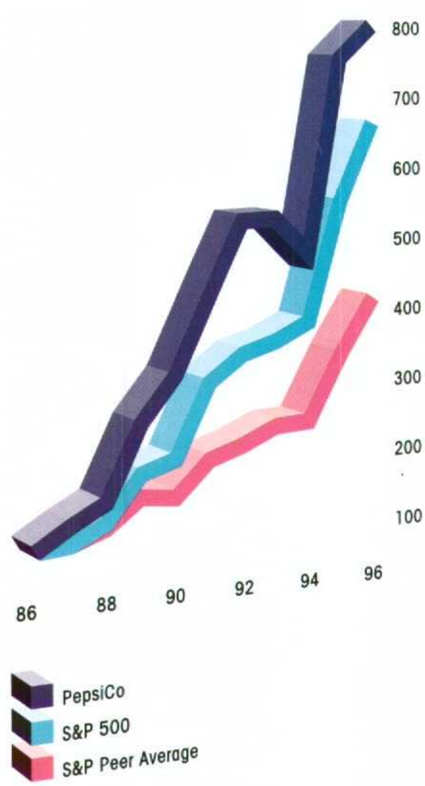
But when you chart our growth over all that time, you see it isn't exactly a straight line. Every once in a while, like last year, we seem to stumble.

As a 25-year veteran of PepsiCo, very much in the action most of that time, I've tried over the last year to figure out what exactly accounts for our unevenness.

I enlisted in my thinking all of our top executives, including Craig Weatherup and Steve Reinemund, the chiefs of our worldwide beverage and snack businesses, and our new vice chairman and chief financial officer, Karl von der Heyden, who started his career at PepsiCo 23 years ago before becoming CFO of H.J. Heinz and cochairman and CEO of RJR Nabisco. Wayne Calloway, my predecessor as CEO, was also part of the team. So was Don Kendall, Wayne's predecessor and cofounder of PepsiCo.

This wasn't just a matter of crunching lots of numbers and doing exhaustive analysis. Far more important was the know-how and

Cumulative Total Return
In $, indexed at 12/31/86



Wayne Calloway Retires

After 10 years as chairman and chief executive officer of PepsiCo, my great friend Wayne Calloway stepped down as CEO in April 1996 and as chairman in November.

Wayne, who remains on the Board of Directors, leaves behind a remarkable legacy of leadership and growth. During his tenure at the top, PepsiCo's sales more than tripled, and the market value of PepsiCo grew by more than $35 billion.

The Calloway era can also be defined in very human terms. His warmth, optimism, integrity and unwavering belief in the ability of people to grow have left an indelible mark on PepsiCo. More than a gifted leader, he's also a powerful inspiration to all of us who work at PepsiCo.

Roger

wisdom of a senior management team with a collective century and a half of PepsiCo experience.

So what did we conclude? Well, odd as it might sound, we think we simply tried too hard sometimes, overreached — got out in front of our headlights, if you will — in our quest for growth.

Over 30 years, our mistakes have been relatively few, thank goodness, but they've almost always been caused by investing too much money too fast, trying to achieve heroic overnight success where, in retrospect, the odds were tougher than they seemed.

That certainly was what caused our problems in international beverages, especially in Latin America. And it was clearly an issue in restaurants. From 1988 to 1994 we invested close to $7 billion, adding thousands of restaurants to our corporate portfolio. Yes, lots of that money paid off. But when industry growth slowed and competition intensified, it became much more difficult to run that many restaurants efficiently. That caused our investment returns to suffer.

As a solution, in 1995 we began pursuing a long-term strategy of selling restaurants back to franchisees, who were closer to the customer and able to operate the units more profitably than a big corporation. That not only reduced the capital requirements of our restaurant business, it produced cash and income, some of which we've used to offset the cost of upgrading or closing underperforming units.

So far we've refranchised over a thousand restaurants, improving the overall system. And with $750 million a year in cash now being generated by restaurants — on top of having put together a top-notch restaurant executive team — we're now in a position where our restaurant companies can prosper on their own. That, and the opportunity to focus more squarely on beverages and snack foods, is the reason we decided to create a separate public corporation for our restaurant businesses.

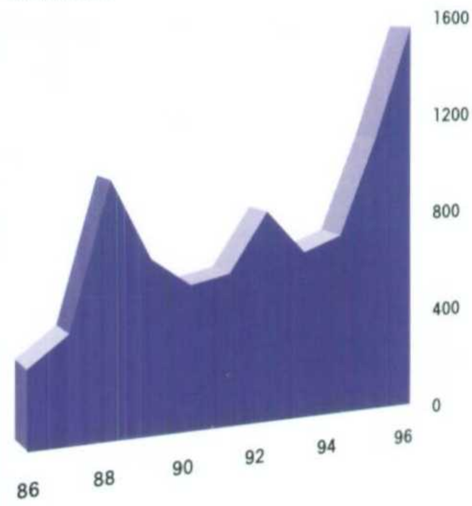
A Look Ahead

So what does all this mean for our future? Can we put PepsiCo on a sustainable, consistent 15% annual earnings growth trajectory?

I believe we can. And I believe we need to do three things to achieve that goal:

- Sharply focus our financial and management resources on our core businesses: restaurant management on restaurants, packaged goods management on beverages and snacks.
- Ruthlessly prioritize to be sure we employ our greatest sustaining efforts on the biggest opportunities within our core businesses. In beverages, for example, the lion's share of our investment dollars and management attention will go to high-potential markets where no company dominates

Free Cash Flow*
$ in Millions



** Net cash provided by operating activities reduced by cash dividends paid and adjusted for the following investing activities: capital spending, refranchising of restaurants, sales of property, plant and equipment and other, net.*

— like China, India and Russia — and to markets where we lead or are a strong number two.

- Build our success upon our key functional strengths: 1) day-to-day management of operationally intensive businesses; 2) manufacturing, selling and distribution infrastructure development; and 3) marketing and new product R&D.

In other words, stick to the things we do well, and do them better. Stop doing things we don't do well — no matter how alluring they seem. And put the power of the entire corporation behind a few very big initiatives — ones that really count.

In short, we need to do throughout the corporation exactly what we've been doing for years at our strongest businesses, Pepsi-Cola in the United States and Frito-Lay.

And that gets me to the two notions at the heart of our thinking: organizational focus and institutional strengths.

Organizational Focus

Over the last year we have been reshaping our corporate structure so we can target our greatest opportunities. Our worldwide beverage business, for example, was unified under one global leader, Craig Weatherup. We did the same for global snacks under Steve Reinemund. And both Craig and Steve, as well as our CFO Karl von der Heyden, were elected to our Board of Directors.

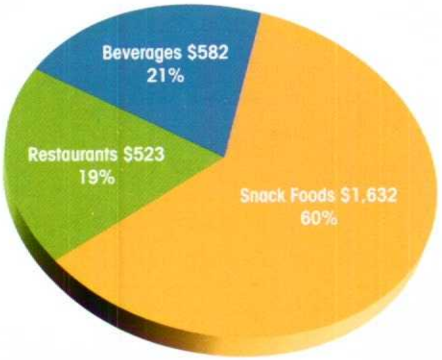
In some cases we've chosen simply to get out of businesses that don't leverage our strengths or don't offer a big enough opportunity. That includes our small restaurant chains (Hot 'n Now, California Pizza Kitchen, etc.), our restaurant supply distribution company and several beverage packaging operations.

Most important, we decided to split PepsiCo into two totally separate companies, a packaged goods company and a restaurant company, each focusing on what they do best. Despite some marketing and advertising similarities between restaurants and packaged goods, as our industries have become more competitive in recent years, we've become a lot more aware of the differences. Those differences are as basic as the customer, with restaurants serving consumers and our packaged goods businesses serving retailers. And, as you might guess, satisfying consumers is a very different matter than satisfying retailers.

So PepsiCo this year intends to become a simpler, more focused company, with fewer levels of management and fewer distractions. Instead of the eight operating units in three lines of business we had a year ago, we'll be four operating units under two global business structures, plus a totally separate and independent restaurant company. We'll be out of casual dining, out of sandwiches, out of hamburgers, out of restaurant supplies and out of vertical integration in packaging.

1996 Net Sales
Total: $31,645
$ in Millions

1996 Segment Operating Profits
Total: $2,737*
$ in Millions



** On Management Basis – included unusual charges of $576 and $246 in Beverages and Restaurants, respectively.*

Institutional Strengths

But what about our strengths as a corporation? What are the critical qualities that have gotten us where we are today, and ultimately will shape our future? In my opinion there are several things we do very well but need to do better.

1. Invest in Growth

By their very nature, our businesses generate an enormous flow of cash. I believe our greatest opportunity by far may be managing our businesses to produce even more cash, and more carefully investing that cash to consistently yield strong returns.

Even in 1996, a disappointing profit year, our free cash flow grew to a record $1.5 billion. But better focus will give us even more cash — and that means more flexibility to invest in large-scale growth opportunities, like acquisitions and emerging market infrastructure development, as well as our stock buyback program.

It's probably fair to say we've elevated asset management to our highest priority at PepsiCo. And with a strong correlation between cash growth and stock prices historically, that should mean excellent rewards for investors.

2. Invest in People

PepsiCo is well known as a producer of talented managers. Historically we've hired bright, ambitious people and moved them into lots of challenging assignments. It's been a big part of our success. But I believe PepsiCo would benefit more by moving people a bit less frequently.

For one thing, continuity breeds accountability. And I believe accountability is essential to sound management. Greater continuity also helps us evaluate our people more fairly, by giving them more chance to make a real and measurable impact, whether they're running one market or a whole division.

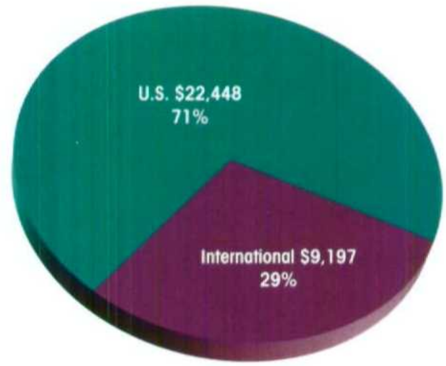
So we intend to keep our people in jobs longer, extending management assignments. We're even looking at ways to change our compensation system, so managers feel the financial impact of their decisions for years, even if they've changed jobs within PepsiCo.

We also need to improve our focus on the front line. The people who make, move, sell and service our products have the power to make customers smile. Boosting their capability, loyalty and enthusiasm will work wonders. We need to make PepsiCo an even more attractive, humanistic place to work by offering challenging jobs and good pay, of course. But also by making sure we treat our frontline people with even more dignity and respect — and by recognizing the enormous contribution they make to our success.

3. Operations

We're very good at operating big packaged goods businesses with complex manufacturing and distribution systems. That's evident by

1996 Net Sales
Total: $31,645
$ in Millions



the perennial success of our North American beverage and snack businesses, which serve over a million retail customers. It's also apparent in some of our international snack operations, like Walkers in the United Kingdom and Sabritas in Mexico.

But we concluded that to achieve our ambitious goals, we need all our operations to be top-notch — all the time!

Think about it this way: A gain of one percentage point in the operating margin of Frito-Lay North America adds $66 million to our annual operating profit.

Our new, simplified, globalized management structure now allows us to take the nuts-and-bolts approach that's worked so well for our U.S. businesses and apply it overseas.

We've already completely overhauled our international beverage business, strategically focusing our resources on a very select group of markets where the growth potential is enormous and no competitor is deeply entrenched.

All these efforts should return our international beverage business to healthy, profitable growth fairly soon.

4. Marketing

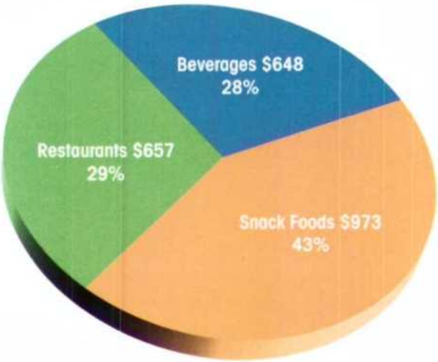
PepsiCo is considered one of the world's premier marketers. Our advertising is legendary. Our ability to create enormous excitement around our brands is unsurpassed. But even here, we can benefit from greater focus and greater power against very specific big ideas. A good example in 1996 was the Pepsi Stuff promotion. Rather than support dozens of small promotions during the summer, Pepsi put enormous resources against one very large, very visible campaign. The result: Pepsi's supermarket sales growth for the summer outpaced that of our competitor, despite that company's high-profile Olympics sponsorship.

The big example in 1997 is our across-the-corporation involvement with the Star Wars movie trilogy. Every PepsiCo division is tied in with this huge consumer hit, in dozens of countries. As I write this letter, Taco Bell same store sales are up 4%, primarily because of Star Wars.

5. New Products

The lifeblood of a vibrant consumer products company is its ability to create great new products that generate profits for years. We produce more successful new products than just about any corporation on earth — from Stuffed Crust Pizza at Pizza Hut to Chicken Pot Pie at KFC to the "Slam" family of plastic bottles at Pepsi. But today we're concentrating our efforts on a handful of ideas that are particularly big and powerful. The best example is Baked Lay's brand potato crisps. In its first full year of national distribution, consumers spent $341 million on Baked Lay's.

1996 Segment Capital Spending
Total: $2,278
$ in Millions



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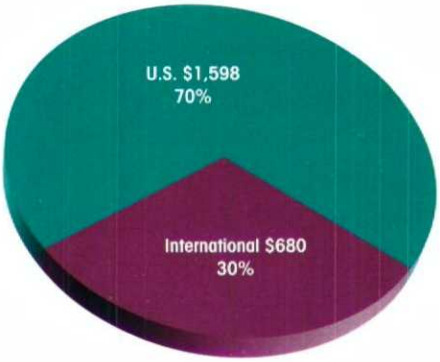


The Payoff

Perhaps the most important question in all this is: What's the payoff? After all the thinking, after all the analysis, after peering through our own "window on the universe," what can we tell about our future?

A great deal, I think. And it's very exciting.

Focus works miracles. By putting our greatest resources behind a few big opportunities, we expect to achieve our historic mid-teens profit growth, only with more predictability and consistency.

I believe PepsiCo will become an even more prolific generator of cash than it is today. And by managing that cash wisely, we also expect to enjoy a steadily increasing return on capital. We'll invest aggressively, but only in opportunities that hold the prospect of a healthy return over the long haul.

For all our past success, I believe we can become a much better snack company, a much better beverage company, a much better company, period. And I believe our restaurants can grow and prosper as a fully independent corporation.

I have tremendous confidence in the future of PepsiCo. It's a confidence based not on faith but on knowing that PepsiCo is a corporation blessed with vast and wonderful resources: a portfolio of thriving businesses, extraordinary financial strength and thousands of bright, dedicated people.

Our challenge is to make the most of them. I believe we will.

Before I close, I'd like to say a word about my predecessors, Wayne Calloway and Don Kendall. They are both great leaders who have created a wonderful company and great wealth for shareholders. They are also about the best people I know, inspirational and lots of fun. They are my best friends, and I talk to both of them just about every day. Their support, along with that of our world-class Board of Directors, makes me, by my calculation, one of the luckiest guys around.

We look forward to delivering a terrific future.

Roger A. Enrico
Chairman of the Board and
Chief Executive Officer

"Eagle Nebula," in the constellation Serpens, is an incubator for new stars. The stellar "eggs" are embedded inside the tiny fingerlike protrusions extending from the top of the nebula. Each "fingertip" is larger than our own solar system.

PEPSICO FACTS

PepsiCoFacts

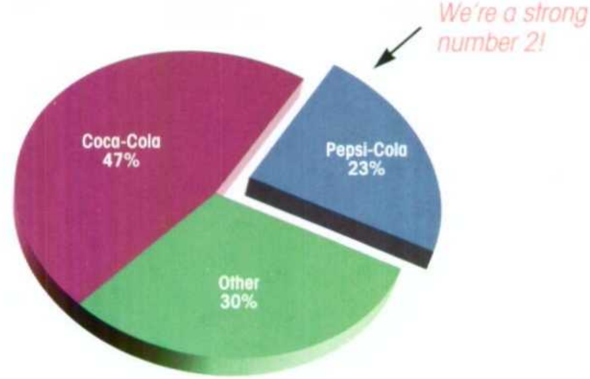
Pepsi-Cola Company spans more than 190 countries and accounts for about one quarter of the world's soft drinks. In 1996 consumers spent about $28 billion on our beverages.

More than 70% of our sales come from North America, where we enjoyed strong growth and earned more than $1.4 billion in 1996. Successful promotions, convenient packages, new products and the perennial power of our brands fueled volume gains in supermarkets, mass merchandisers and all other major channels.

Our International unit, which had a loss, underwent a total restructuring and a major change in strategy. By doing what has made our North American business so successful, and focusing on markets where we're already strong and on emerging countries not dominated by any beverage company, we can restore our International unit to profitable growth.

Beverages

Worldwide Soft Drink Industry Case Sales



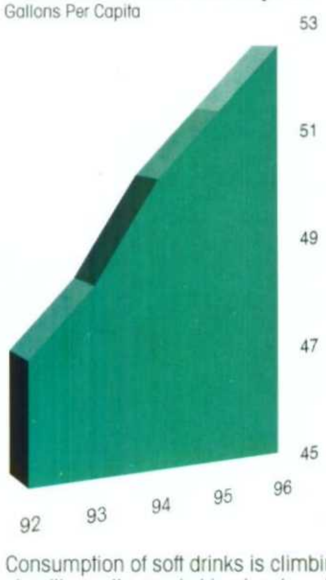
Nearly a quarter of all soft drinks purchased throughout the world are Pepsi-Cola products.

U.S. Supermarket Soft Drink Volume Growth

In supermarkets, the largest distribution channel, Pepsi-Cola volume grew twice as fast as the industry. Pepsi, Mountain Dew and Mug brands all made big gains.

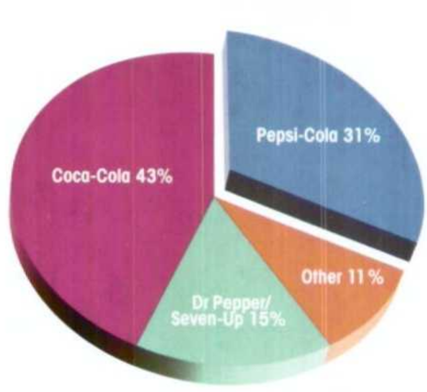
U.S. Soft Drink Consumption

Gallons Per Capita



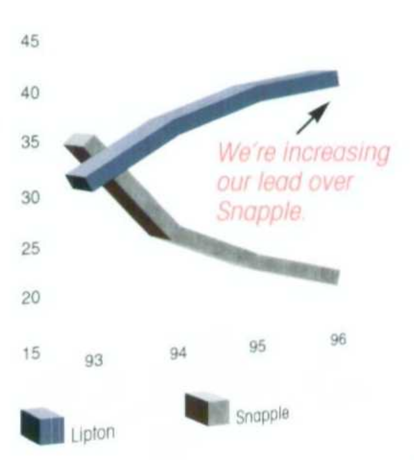
Consumption of soft drinks is climbing steadily, as the market leaders target key distribution channels and introduce more convenient packaging.

U.S. Soft Drink Industry Retail Sales



In the United States, soft drink retail sales reached a new high of $54 billion. Pepsi-Cola products accounted for nearly $17 billion.

Share of Ready-To-Drink Teas



Through our partnership with Lipton, the Lipton brand had the leading tea share for the third consecutive year.

U.S. Pepsi-Cola Soft Drink Volume

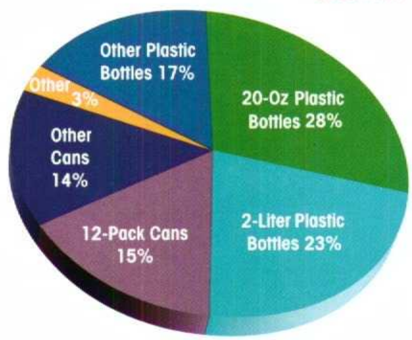
% of Total By Distribution Channel

We had solid volume growth in all major channels.

Package Mix for Convenience Stores and Gas Stations

% Pepsi-Cola U.S. Soft Drink Sales

We're the share leader in this channel.

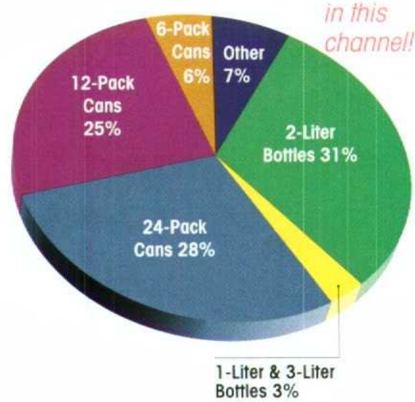


Plastics are nearly 70% of sales.

Package Mix for Supermarkets

% Pepsi-Cola U.S. Soft Drink Sales

Brand Pepsi is Number 1 in this channel!



Cans are almost 60% of sales.

Sources of Pepsi-Cola International Volume by Market Type

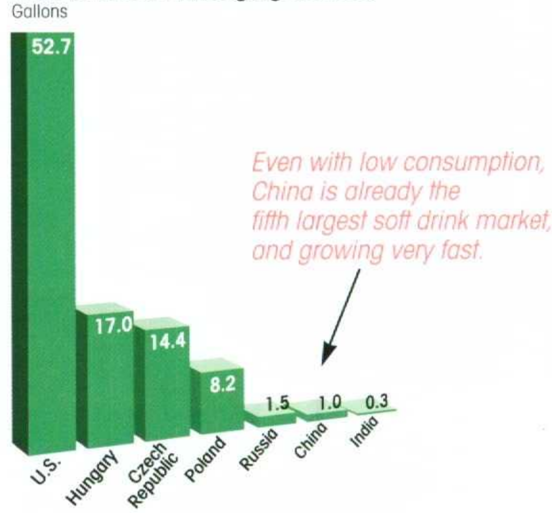
Market Type	% of Pepsi-Cola International Volume	% of World Volume	% of World Population	Average Per Capita Consumption
Low Share	30%	53%	19%	High
Competitive	40%	33%	13%	Medium-High
Leadership	15%	3%	2%	Medium
Emerging	15%	11%	66%	Very Low

Big opportunity!

Developed markets account for 70% of our volume today, but our strong, competitive position in emerging markets means vast growth potential.

Per Capita Consumption U.S. vs. Select Emerging Markets

Gallons



Emerging markets have low per capita consumption, so share will go to the company that develops the category.

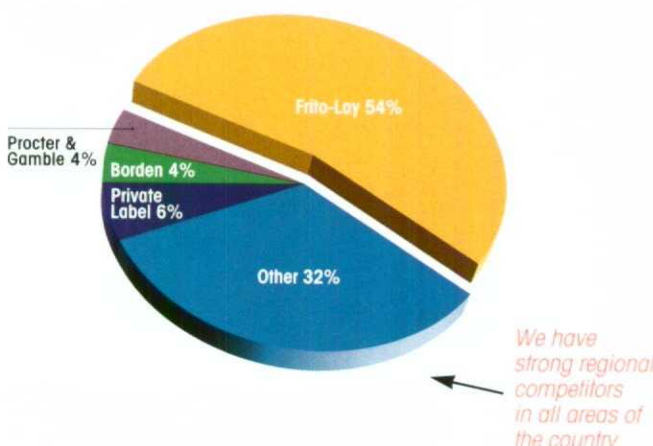
PepsiCoFacts

Frito-Lay Company is the most successful snack chip company on Earth. Our North American and International units each rank number one by a wide margin and we are the market leader in half of the world's top-10 snack chip markets. In fact, our business is more than four times the size of our closest multinational competitor.

Our popular brands, vast manufacturing and distribution systems, strong new products and fast-growing international markets together create a huge opportunity. In 1996 Frito-Lay earned more than $1.6 billion, with solid double-digit profit growth in our North American and International businesses. And with manufacturing or distribution operations in only 39 countries, we see many years of growth ahead.

Snack Foods

U.S. Snack Chip Supermarket Sales by Company
% of Total Market, Retail Sales

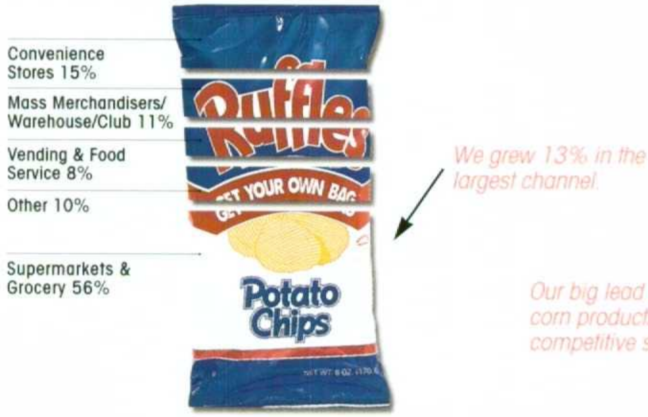


Frito-Lay continues to lead the industry, gaining six share points in 1996.

Snack Chip Growth in U.S. Supermarkets
% Growth in Retail Sales

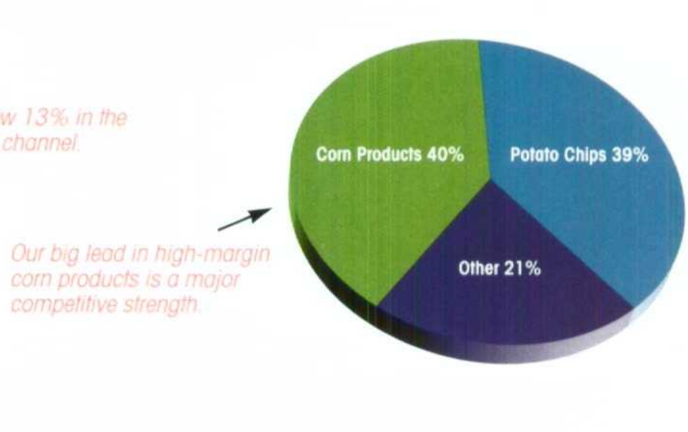
Frito-Lay is growing much faster than the industry – especially in its two largest categories.

Frito-Lay U.S. Distribution Channels
% Total Retail Sales by Channel



Frito-Lay sales are growing at double-digit rates in nearly every distribution channel.

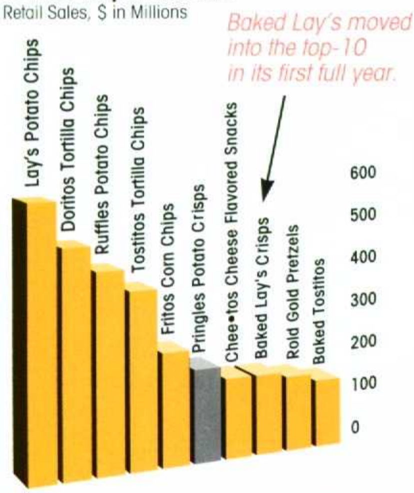
Frito-Lay Snack Chip Category Mix
% of Total Frito-Lay North American Retail Sales



Unlike most competitors, Frito-Lay has a balanced product portfolio and the leading share in each of the major snack chip categories.

Top-Selling Snack Chip Items in U.S. Supermarkets

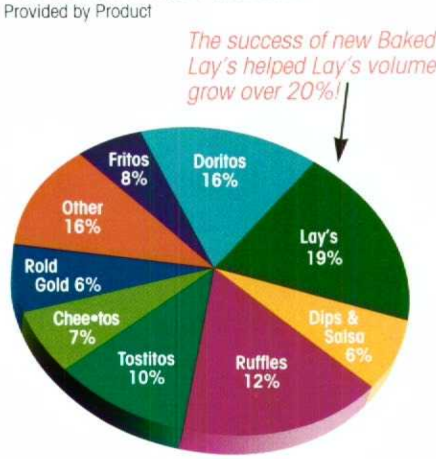
Retail Sales, $ in Millions



Frito-Lay sells nine of the 10 top-selling snack chip items in supermarkets

Frito-Lay Product Mix

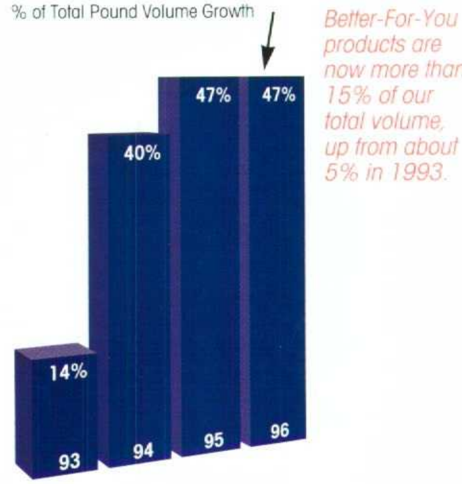
% of Total North American Pound Volume Provided by Product



We have a broad portfolio of big, strong brands.

U.S. Frito-Lay Growth from Better-For-You Products

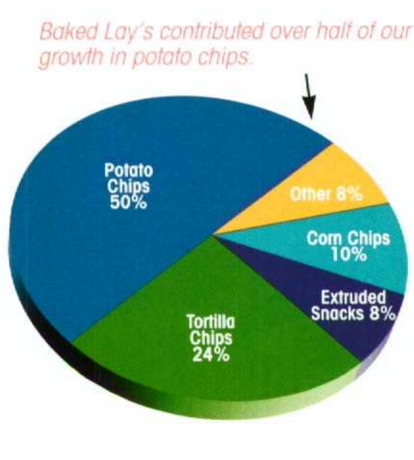
% of Total Pound Volume Growth



Frito-Lay's success with Better-For-You products is largely why our growth significantly exceeds the industry.

Frito-Lay North American Growth by Category

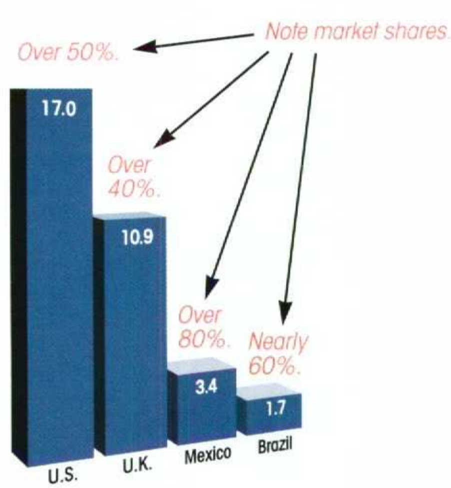
% of Total Sales Growth



Better-For-You products helped us achieve strong double-digit growth in potato and tortilla chips.

Per Capita Consumption

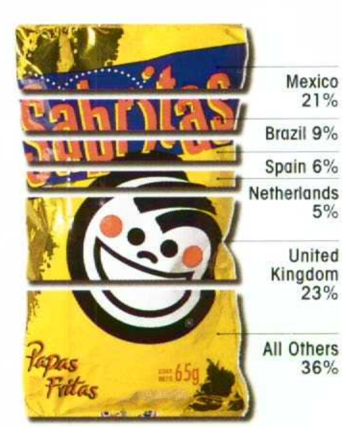
U.S. vs. Large International Markets, Pounds Per Capita



Although we have the leading share in some big international markets, per capita consumption is still relatively low, leaving lots of room to grow.

Frito-Lay International Market Mix

% of Total Salty Snack Volume



Frito-Lay has 19% of the $22 billion salty snack market outside North America. Most sales are concentrated in five markets, leaving huge potential to expand.

PepsiCo Facts

With over 29,000 Pizza Hut, Taco Bell and KFC units, PepsiCo's system has more restaurants than any other in the world. Our brands each lead their categories, generating annual retail sales of more than $20 billion.

While 1996 U.S. profits declined in a lackluster industry, KFC bucked the trend, with same store sales surging 6%. Our brands were particularly strong in the high-potential international market, where we posted double-digit sales and profit growth. To enable our businesses to achieve their full potential, in 1997 PepsiCo will spin off its restaurants from its snack and beverage businesses. That will create a powerful new restaurant company with expected annual revenues of $10 billion and a vast global opportunity.

Restaurants

Worldwide System Sales

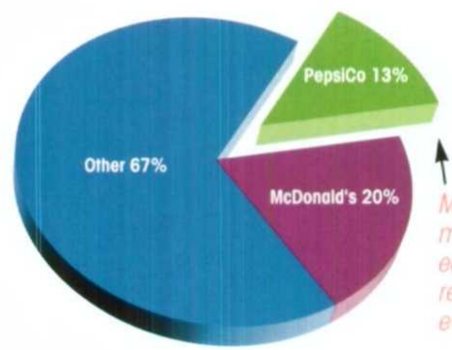
$ in Billions
Compounded Annual Growth Rates

	1991	1992	1993	1994	1995	**1996**	5-Year Growth
PH	$ 4.1	$ 4.3	$ 4.8	$ 5.0	$ 5.3	**$ 5.1**	4%
TB	2.7	3.2	3.8	4.4	4.6	**4.8**	12%
KFC	3.4	3.4	3.4	3.5	3.7	**3.9**	3%
Total U.S.	10.2	10.9	12.0	12.9	13.6	**13.8**	6%
Total Int'l	4.1	4.8	5.4	5.6	6.5	**7.0**	11%
Total	$14.3	$15.7	$17.4	$18.5	$20.1	**$20.8**	8%

Includes sales from California Pizza Kitchen, Chevys, D'Angelo Sandwich Shops, East Side Mario's and Hot 'n Now.

Worldwide Quick Service Restaurant Retail Sales

% of Total Retail Sales



More than 18 million people eat at our restaurants every day.

PepsiCo's restaurant business ranks second largest in the world in system sales. Worldwide quick service restaurant industry sales are about $160 billion.

Average U.S. System Sales Per Unit

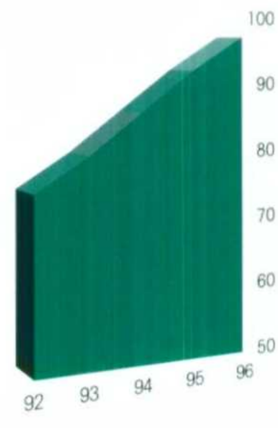
$ in Thousands
Compounded Annual Growth Rates

	1991	1992	1993	1994	1995	**1996**	5-Year Growth
PH	$613	$612	$651	$634	$651	**$620**	–
TB	814	866	925	953	925	**886**	2%
KFC	675	684	685	706	733	**775**	3%

Excludes sales from kiosks and other special outlets, California Pizza Kitchen, Chevys, D'Angelo Sandwich Shops, East Side Mario's and Hot 'n Now.

U.S. Quick Service Restaurant Sales

$ in Billions



KFC grew faster than the industry, without adding restaurants.

The quick service restaurant industry continues to expand, with sales growing about 5% in 1996.

Restaurant System Units Worldwide
Compounded Annual Growth Rates, Year-end 1991-1996

	1991	1992	1993	1994	1995	**1996**	5-Year Growth
PH	7,264	7,608	8,138	8,570	8,835	**8,950**	4%
TB	3,589	4,051	4,782	5,589	6,320	**6,890**	14%
KFC	5,022	5,055	5,094	5,115	5,108	**5,079**	–
Total U.S.	15,875	16,714	18,014	19,274	20,263	**20,919**	6%
PHI	1,573	1,846	2,295	2,920	3,324	**3,633**	18%
TBI	81	102	139	179	196	**203**	20%
KFCI	3,458	3,674	3,939	4,292	4,526	**4,784**	7%
Total Int'l	5,112	5,622	6,373	7,391	8,046	**8,620**	11%
Total	20,987	22,336	24,387	26,665	28,309	**29,539**	7%

All the unit growth comes from franchised and licensed operations.

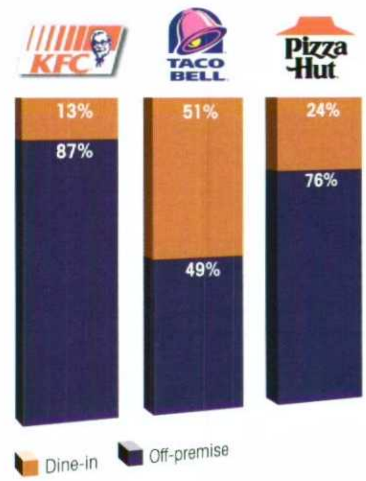
Number of System Units Worldwide
Year-end 1996

	Company	Joint Venture	Franchised	Licensed	Total
PH	4,832	–	3,060	1,058	8,950
TB	2,873	–	2,268	1,749	6,890
KFC	1,957	–	3,015	107	5,079
Total U.S.	**9,662**	**–**	**8,343**	**2,914**	**20,919**
PHI	1,183	575	1,722	153	3,633
TBI	95	–	71	37	203
KFCI	1,235	432	3,063	54	4,784
Total Int'l	**2,513**	**1,007**	**4,856**	**244**	**8,620**
Total	**12,175**	**1,007**	**13,199**	**3,158**	**29,539**

PepsiCo ownership is down to 45%.

Unit totals include 1,412 kiosks and 2,121 other special outlets (mostly carts and express units). Pizza Hut includes D'Angelo Sandwich Shops and East Side Mario's. Taco Bell includes California Pizza Kitchen, Chevys and Hot 'n Now. KFC includes 68, 143 and 277 combined Taco Bell units in 1994, 1995 and 1996, respectively.

U.S. Sales by Distribution Channel
Company-operated units

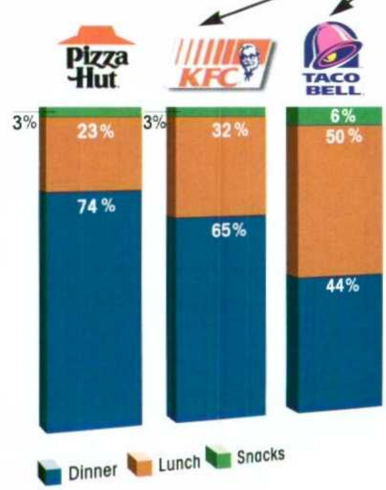


Delivery accounts for about two-thirds of Pizza Hut's off-premise business.

More than half of the food we sell is eaten off-premises.

U.S. Sales By Daypart

We already have nearly 300 units that offer both KFC and Taco Bell.

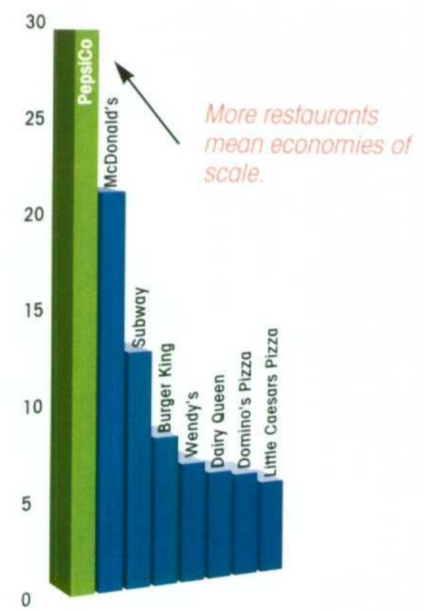


Our restaurants are busy at different times of the day. By combining two concepts in one unit we've boosted sales and returns.

PepsiCoFacts

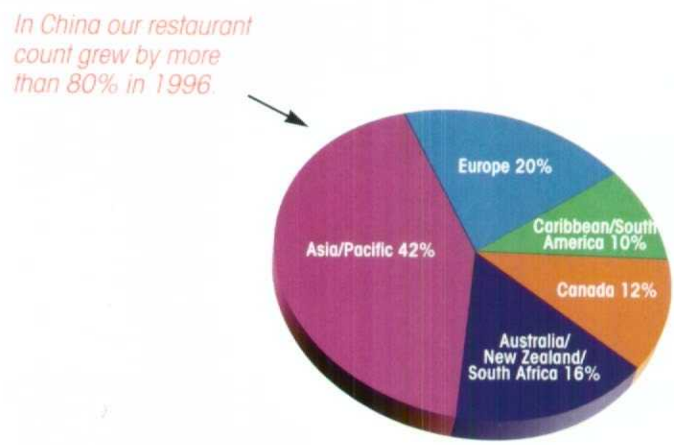
Largest Worldwide Restaurant Systems

Units in Thousands



PepsiCo's system includes more restaurants than any other in the world. Our brands are in nearly 100 countries and territories.

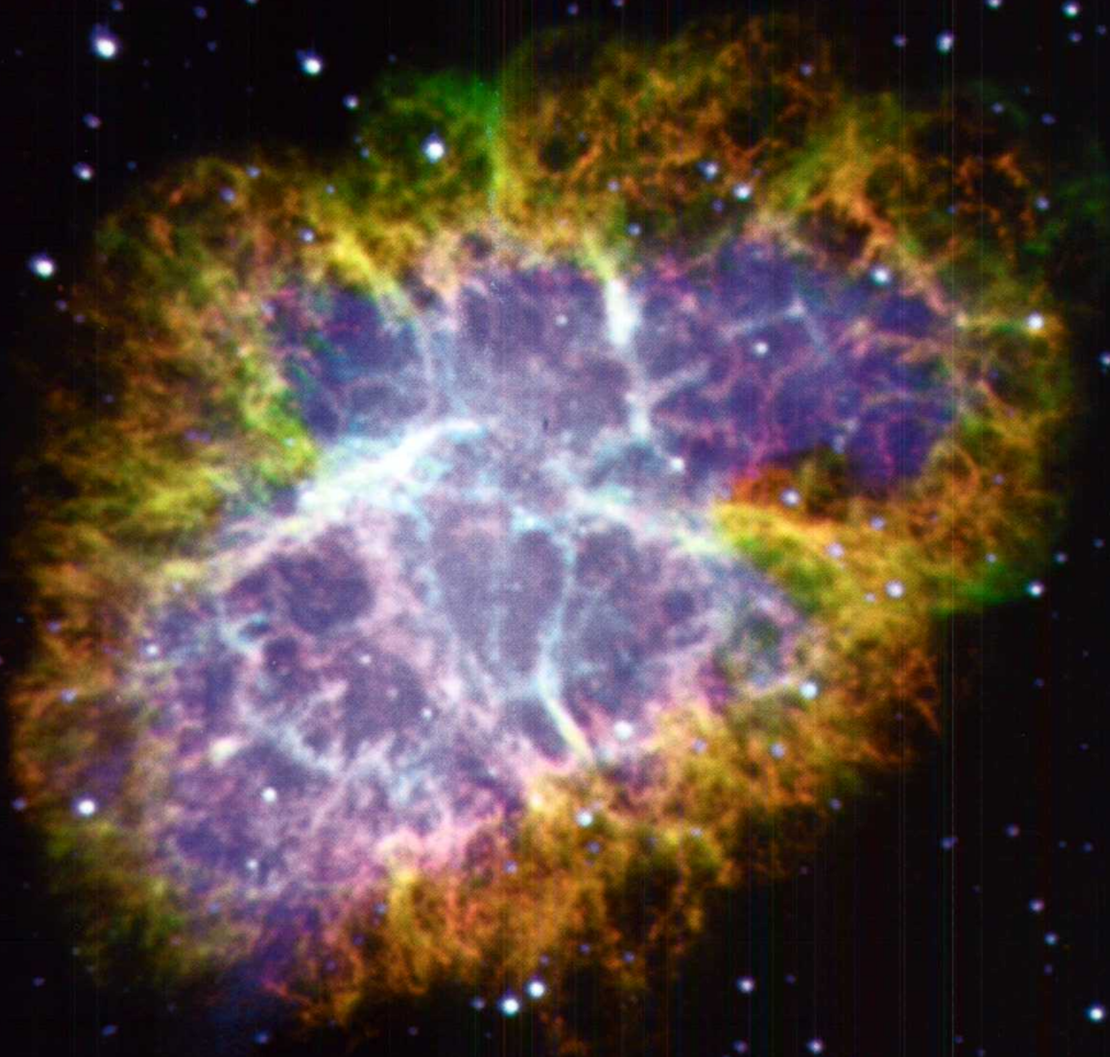
Sources of Sales in International Restaurants



We're truly global. Our restaurants are popular around the world and growth is strong.

This is one of the deepest views of the universe ever seen. The red dot in the center is a faint galaxy, billions of light-years away, more distant than any known previously.

FINANCIAL REVIEW



Contents

The colorful filaments of the "Crab Nebula," located in the constellation Taurus, receive their energy from a tiny pulsar in its center.

Management's Analysis

Introduction

Management's Analysis is presented in four sections. The first section provides introductory comments, highlights items that significantly impact comparability of reported financial information and provides some perspective of our operations outside of the United States (pages 18-19). The second section analyzes the results of operations, first on a consolidated basis and then for each of our three industry segments (pages 19-26). The final two sections address our consolidated cash flows and financial condition, which also includes our Cautionary Statements (pages 26-28).

As described in Note 1 to the Consolidated Financial Statements, we had a two-for-one stock split in 1996. All share data in Management's Analysis have been adjusted to reflect the stock split.

Change In Segment Reporting

Beginning in the fourth quarter of 1996, we changed the segment reporting which supports our Management's Analysis to more closely reflect how we manage the business. As a result, our beverages and snack foods segments are now reported on a North American basis (U.S. and Canada combined) and an International basis (all other international) while the restaurants segment continues to be reported on a U.S. and international basis. Also, the net sales and operating profit we report externally now generally match the net sales and operating profit our operating units report to our senior management. The operating profit reported on this "Management Basis" does not reflect items the operating units are not held accountable for, such as the $520 million initial impact of adopting Statement of Financial Accounting Standards No. 121 (SFAS 121), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," in 1995 (see Note 4). It also does not reflect insignificant allocations for corporate items directly attributable to the segments or exclude results from unconsolidated affiliates, both of which are required by Statement of Financial Accounting Standards No. 14 (SFAS 14), "Financial Reporting for Segments of a Business Enterprise." The Management Basis operating profit (page 21) includes a reconciliation to the operating profit disclosure required by SFAS 14, which is provided in Note 19. Prior year amounts and related management's analysis have been restated.

"Springtime on Mars" is one of the best views of the red planet. Visible are the planet's permanent ice cap and other geological features, such as impact craters and valleys.

Certain Factors Affecting Comparability

The following table summarizes items impacting comparability, which are described in Notes 2, 13 and 15. We believe the items included in the first section are so unusual and distortive that we do not include them when we evaluate the ongoing performances of our businesses.

	Expense/(Income)					
($ millions)	**1996**		1995		1994	
	(a)	**Per Share**	*(a)*	Per Share	*(a)*	Per Share
Unusual Items and Accounting Changes						
International beverages impairment, disposal and other charges	**$ 576**	**$ 0.33**				
Disposal of non-core U.S. restaurant businesses	**246**	**0.12**				
Gain on stock offering by an unconsolidated affiliate					$(18)	$(0.01)
Accounting changes *(b)*						
SFAS 121			$520	$ 0.24		
SFAS 112					84	0.03
Pension assets					(38)	(0.01)
	$ 822	**$ 0.45**	$520	$ 0.24	$ 28	$ 0.01
Other Items						
Refranchising gains*(c)*	**$(139)**	**$(0.05)**	$(93)	$(0.03)		
Store closure costs	**40**	**0.01**	38	0.01	$ 10	$ –
Net refranchising (gains)/ losses	**(99)**	**(0.04)**	(55)	(0.02)	10	–
Reduced depreciation and amortization	**(46)**	**(0.02)**	(21)	(0.01)		
Recurring restaurant impairment charges	**62**	**0.03**				
Fifty-third week					(54)	(0.02)
	$ (83)	**$(0.03)**	$(76)	$(0.03)	$(44)	$(0.02)

(a) Pre-tax amounts.
(b) Initial impact of adopting SFAS 121 and cumulative effect of other accounting changes.
(c) Included initial franchise fees.

International Businesses

Excluding the $576 million of unusual impairment, disposal and other charges, ongoing international operating profit (including Canada), as measured on the Management Basis, represented 10%, 24% and 20% of our consolidated operating profit in 1996, 1995 and 1994, respectively. The decline in 1996 reflected an operating loss in International beverages compared to an operating profit in 1995. The 4% growth in 1995 was slowed by Mexico, formerly our largest international market, where the Mexican peso devalued approximately 50% in late 1994 and early 1995. Consumer demand declined dramatically in response to declining real incomes, increased unemployment and price increases taken to offset rising costs. Our efforts to stimulate demand, reduce costs and reduce capital spending resulted in only a modest decline in peso operating profit.

However, on a U.S. dollar basis, 1995 sales, income and identifiable assets in Mexico declined dramatically, reflecting the unfavorable translation effect of the much weaker peso, as summarized below:

($ in millions except per share amounts)	1995	1994	% Decline
Net sales	$1,228	$2,023	39
Net income	$ 55	$ 175	69
Net income per share	$ 0.03	$ 0.11	73
Identifiable assets	$ 637	$ 995	36

Results of Operations

Volume is defined as the estimated effect on net sales and operating profit of the year-over-year change in company-owned Bottler Case Sales and concentrate unit sales in beverages, pound or kilo sales in snack foods and transaction counts in restaurants.

Consolidated Review

Net Sales

				% Growth Rates	
($ in millions)	**1996**	1995	1994	**1996**	1995
Net sales	**$31,645**	$30,255	$28,351	**5**	7

Worldwide net sales rose $1.4 billion in 1996 reflecting higher effective net pricing (including the effect of product, package and country mix) in each of our three business segments and net volume gains of $592 million. The higher effective net pricing was partially offset by an unfavorable foreign currency exchange impact, primarily reflecting the weaker peso and the strengthening of the U.S. dollar compared to the Japanese yen. The volume gains were driven by worldwide snack foods and North American beverages, partially offset by declines at U.S. restaurants. The sales growth rate was reduced by 1 point as we reduced our ownership of the restaurant system through refranchising and closing underperforming restaurants, as described in Management's Analysis — Restaurants beginning on page 24.

Worldwide net sales rose $1.9 billion or 7% in 1995. The fifty-third week in 1994 reduced worldwide net sales growth by approximately 2 points. The growth benefited from higher effective net pricing in International snack foods, driven by Mexico, and in North American beverages, primarily to help offset higher prices for packaging. These benefits were partially offset by the unfavorable currency translation impact of the weaker peso on International snack foods. Volume gains in worldwide snack foods and beverages added $934 million to net sales. Additional restaurant units contributed $623 million to sales growth.

Cost of Sales

($ in millions)	**1996**	1995	1994
Cost of sales	**$15,383**	$14,886	$13,715
As a percent of net sales	**48.6%**	49.2%	48.4%

Cost of sales as a percent of net sales decreased .6 of a point in 1996 primarily due to lower raw materials costs in North American beverages coupled with the leveraging effect of the higher effective net pricing.

The .8 of a point increase in cost of sales as a percent of net sales in 1995 was primarily due to higher packaging prices in North American beverages, the effect of which was partially mitigated by increased effective net pricing, and an unfavorable mix shift in International beverages sales from higher-margin concentrate to lower-margin packaged products. Cost of sales as a percent of net sales in International snack foods increased due to inflation-driven cost increases in Mexico, which were partially mitigated by price increases.

Selling, General and Administrative Expenses (SG&A)

($ in millions)	**1996**	1995	1994
SG&A	**$12,593**	$11,546	$11,123
As a percent of net sales	**39.8%**	38.2%	39.2%

SG&A comprises selling and distribution expenses (S&D), advertising and marketing expenses (A&M), general and administrative expenses (G&A), other income and expense and equity income or loss from investments in unconsolidated affiliates. In 1996, A&M, S&D and G&A all grew faster than net sales driving a 9% increase in SG&A, led by International beverages. Other income and expense included refranchising gains in excess of the costs of closing other restaurants (net refranchising gains) of $99 million, compared to $55 million in 1995. In addition, 1996 included recurring SFAS 121 noncash impairment charges of $62 million related to restaurants. Losses from our unconsolidated affiliates, compared to earnings a year ago, primarily reflected our share of operating losses from Buenos Aires Embotelladora S.A. (BAESA). BAESA is one of our bottling joint ventures in Latin America.

In 1995, SG&A grew 4% due to A&M, S&D and G&A all growing at a slower rate than sales. The slower spending was driven by worldwide beverages and U.S. restaurants. G&A in worldwide beverages benefited from International cost containment initiatives, savings in North American beverages from a 1994 reorganization and leverage from the increased effective net pricing in North American beverages. Other income benefited from net refranchising gains of $55 million, compared to store closure costs of $10 million in 1994 and a gain on the sale of an International bottling plant in 1995.

Amortization of intangible assets declined 5% in 1996 to $301 million as a result of the reduced carrying amount of intangible assets in connection with the 1995 adoption of SFAS 121 (see Note 4), but increased 1% to $316 million in 1995. This noncash expense reduced net income per share by $0.14 in 1996 and $0.15 in 1995.

Unusual impairment, disposal and other charges of $822 million ($716 million after-tax or $0.45 per share) in 1996 were associated with International beverages ($576 million) and the decision to dispose of our non-core U.S. restaurant businesses ($246 million). See Note 3.

The 1995 charge of $520 million ($384 million after-tax or $0.24 per share) was the initial, noncash impairment charge upon adoption of SFAS 121. See Note 4.

Operating Profit

($ in millions)	**1996**	1995	1994	% Growth Rates **1996**	% Growth Rates 1995
Operating Profit					
Reported	**$2,546**	$2,987	$3,201	**(15)**	(7)
*Ongoing**	**$3,368**	$3,507	$3,201	**(4)**	10

** Excluded the unusual impairment, disposal and other charges in 1996 and 1995 (see Note 3).*

In 1996, reported operating profit declined $441 million. Ongoing operating profit decreased $139 million, primarily due to a combined segment operating profit decrease of $95 million or 3%. The decline reflected increased costs in excess of higher effective net pricing in International beverages and North American snack foods and unfavorable currency translation impacts, partially offset by the $177 million of volume gains. Also included in the segment operating profit results were reduced depreciation and amortization expense of $46 million, as a result of the reduced carrying amount of assets in connection with the adoption of SFAS 121, and $99 million of net refranchising gains in 1996 compared to $55 million in 1995, partially offset by the recurring SFAS 121 noncash impairment charge of $62 million in 1996. Ongoing operating profit growth was also hampered by increased net corporate costs.

In 1995, reported operating profit declined $214 million. Ongoing operating profit increased $306 million or 10%. The fifty-third week in 1994 reduced the operating profit growth by approximately 2 points. The profit growth was driven by combined segment operating profit growth of $283 million or 8%, which reflected volume growth of $283 million ($430 million excluding the impact of the fifty-third week) and $76 million due to net additional restaurant units. These advances were partially offset by net unfavorable currency translation impacts, primarily related to the peso. The benefit of higher effective net pricing for all segments combined was almost entirely offset by increased product and operating costs, primarily in Mexico, and higher packaging prices in North American beverages. Ongoing operating profit growth benefited from reduced net corporate costs.

Gain on stock offering by an unconsolidated affiliate of $18 million ($17 million after-tax or $0.01 per share) in 1994 related to the public share offering by BAESA. See Note 17.

Interest Expense, net

($ in millions)	**1996**	1995	1994	% Growth Rates **1996**	% Growth Rates 1995
Interest expense	**$(600)**	$(682)	$(645)	**(12)**	6
Interest income	**101**	127	90	**(20)**	41
Interest expense, net	**$(499)**	$(555)	$(555)	**(10)**	–

Interest expense, net, declined 10% in 1996 reflecting lower international debt levels and U.S. interest rates.

Interest expense, net in 1995 was even with 1994, reflecting the net impact of higher average interest rates offset by lower average borrowings.

Provision for Income Taxes

($ in millions)	**1996**	1995	1994
Reported			
Provision for Income Taxes	**$ 898**	$826	$880
Effective Tax Rate	**43.9%**	34.0%	33.0%
*Ongoing**			
Provision for Income Taxes	**$1,004**	$962	$880
Effective Tax Rate	**35.0%**	32.6%	33.0%

** Excluded the unusual impairment, disposal and other charges in 1996 and 1995 (see Note 3).*

Our 1996 reported effective tax rate increased 9.9 points to 43.9%, driven by the low tax benefits associated with the unusual impairment, disposal and other charges. Our 1996 ongoing effective tax rate increased 2.4 points to 35.0%, primarily reflecting lower benefits in 1996 from the current year resolution of certain prior years audit issues and a decline in lower-taxed foreign income coupled with an increase in foreign losses with low tax benefits.

Our 1995 reported effective tax rate increased 1 point to 34.0%. Our 1995 ongoing effective tax rate declined slightly, reflecting benefits from the current year resolution of certain prior years audit issues. These benefits were partially offset by a higher foreign effective tax rate, primarily due to a provision in 1993 U.S. tax legislation and a decrease in the proportion of income taxed at lower foreign rates. The legislation limited the U.S. tax credit on income we earned in Puerto Rico to 60% of the amount allowed under the previous tax law beginning on December 1, 1994. The legislation further reduces the limit ratably over the following four years to 40%. This provision reduced our 1995 earnings by $58 million or $0.04 per share.

Income and Income Per Share Before Cumulative Effect of Accounting Changes

($ in millions except per share amounts)	**1996**	1995	1994	% Growth Rates **1996**	% Growth Rates 1995
Reported					
Income	**$1,149**	$1,606	$1,784	**(28)**	(10)
Income Per Share	**$ 0.72**	$ 1.00	$ 1.11	**(28)**	(10)
*Ongoing**					
Income	**$1,865**	$1,990	$1,767	**(6)**	13
Income Per Share	**$ 1.17**	$ 1.24	$ 1.10	**(6)**	13

** Excluded the unusual impairment, disposal and other charges in 1996 and 1995 (see Note 3) and the 1994 BAESA gain (see Note 17).*

Industry Segments – Management Basis

($ in millions)	Growth Rate 1991-1996*(a)*	**1996**	1995	1994	1993	1992
NET SALES						
Beverages						
North America *(b)*	7%	**$ 7,725**	$ 7,400	$ 7,031	$ 6,404	$ 5,932
International	15%	**2,799**	2,982	2,535	2,148	1,589
	9%	**10,524**	10,382	9,566	8,552	7,521
Snack Foods						
North America *(b)*	12%	**6,618**	5,863	5,356	4,674	3,922
International	15%	**3,062**	2,682	2,908	2,353	2,210
	13%	**9,680**	8,545	8,264	7,027	6,132
Restaurants						
U.S.	8%	**9,110**	9,206	8,696	8,025	7,112
International	22%	**2,331**	2,122	1,825	1,331	1,120
	10%	**11,441**	11,328	10,521	9,356	8,232
Combined Segments	10%	**$31,645**	$30,255	$28,351	$24,935	$21,885
OPERATING PROFIT *(c)*						
Beverages						
North America *(b)*	12%	**$ 1,428**	$ 1,249	$ 1,115	$ 1,019	$ 759
International	NM	**(846)**	117	136	97	45
	6%	**582**	1,366	1,251	1,116	804
Snack Foods						
North America *(b)*	13%	**1,286**	1,149	1,043	914	762
International	12%	**346**	301	354	285	221
	13%	**1,632**	1,450	1,397	1,199	983
Restaurants						
U.S.	4%	**370**	726	637	682	594
International	7%	**153**	112	86	109	134
	4%	**523**	838	723	791	728
Combined Segments – Management Basis	8%	**2,737**	3,654	3,371	3,106	2,515
Adjustments						
Equity (income)/loss		**266**	(14)	(38)	(30)	(40)
Initial impact of impairment accounting change (SFAS 121)			(520)			
Gain on stock offering by an unconsolidated affiliate				(18)		
Other *(d)*		**6**	51	9	1	27
Total Adjustments		**272**	(483)	(47)	(29)	(13)
Combined Segments – SFAS 14 Basis *(e)*	10%	**$ 3,009**	$ 3,171	$ 3,324	$ 3,077	$ 2,502

(a) Five-year compounded annual growth rate. Operating profit growth rates excluded the impacts of the unusual impairment, disposal and other charges in 1996 affecting International beverages ($576) and U.S. restaurants ($246) (see Note 3) and the 1991 unusual charges of $170 to streamline operations of North American snack foods ($91), U.S. restaurants ($43) and International snack foods ($36).

(b) North America is composed of operations in the U.S. and Canada.

(c) The amounts for the years 1992-1996 represent reported amounts. See Note 19 – Items Affecting Comparability for 1996, 1995 and 1994. In addition, 1995 segment operating profit on the Management Basis excluded the $520 charge for the initial, noncash impact of adopting SFAS 121, 1994 International beverages included an $18 gain on a stock offering by BAESA and 1992 included $193 of unusual charges to reorganize and streamline operations of North American beverages ($115), International beverages ($30) and certain International snack foods operations ($48).

(d) Adjustments directly allocable to industry segments but reported in Corporate.

(e) Operating profit as defined by SFAS 14 and as disclosed in Note 19.

NM–Not Meaningful.

Beverages

($ in millions)	1996	1995	1994	% Growth Rates 1996	1995
Net Sales					
North America	**$ 7,725**	$ 7,400	$7,031	**4**	5
International	**2,799**	2,982	2,535	**(6)**	18
	$10,524	$10,382	$9,566	**1**	9
Operating Profit					
Reported					
North America	**$ 1,428**	$ 1,249	$1,115	**14**	12
International	**(846)**	117	136	**NM**	(14)
	$ 582	$ 1,366	$1,251	**(57)**	9
*Ongoing**					
North America	**$ 1,428**	$ 1,249	$1,115	**14**	12
International	**(270)**	117	118	**NM**	(1)
	$ 1,158	$ 1,366	$1,233	**(15)**	11

** Excluded unusual International impairment, disposal and other charges of $576 in 1996 (see Note 3) and a BAESA gain of $18 in 1994 (see Note 17).*
NM - Not Meaningful.

[Note: Unless otherwise noted, net sales and operating profit comparisons within the following discussions are based on ongoing operating profit and include the impact of the fifty-third week in 1994 (see Notes 2 and 19).]

System bottler case sales (BCS) of Pepsi Corporate brands is our standard volume measure. It represents company-owned brands as well as brands we have the right to produce, distribute and market nationally, and includes sales of packaged products and fountain syrup by company-owned and franchised bottlers. BCS was not impacted by the fifty-third week in 1994 because it is measured on a calendar year basis.

1996 vs. 1995

North America

Sales in North America rose $325 million. The gain reflected volume growth of $215 million, led by carbonated soft drink (CSD) products, and higher effective net pricing.

North American BCS increased 4%, with solid increases in Brand Pepsi and the Mountain Dew brand. Alternative beverages, led by Aquafina bottled water and Hawaiian Punch fountain syrup, grew at a double-digit rate.

Profit in North America increased $179 million. The growth reflected volume gains of $117 million, lower product costs and the higher effective net pricing. Advertising and marketing expenses grew significantly faster than sales, primarily due to the Pepsi Stuff promotion. Selling and distribution expense grew at the same rate as sales and volume. Profit growth was aided by lapping charges taken in 1995, primarily for losses on supply contracts, take-or-pay co-packing penalties and a write-down of excess co-packing assets. A 1996 gain on the sale of an investment in a bottling cooperative and a 1996 settlement with a supplier for purchases made in prior years also helped profit growth.

Benefits of approximately $130 million related to the 1992 U.S. restructuring were achieved in 1996 due to the centralization of purchasing and improved administrative and business processes. Benefits are expected to grow until fully realized in 1998, when they are expected to be about $145 million annually. All benefits from the restructuring will continue to be reinvested in the business to strengthen our competitive position.

International

Our new strategy for International beverages is to focus on building our core business in markets in which we are already strong and in emerging markets where we believe the competitive playing field is essentially level. As a result, we took a restructuring charge of $122 million, which is described in Note 3. Almost all of the charge is expected to be paid by the end of 1997. The restructuring is expected to generate about $50 million in savings in 1997, and about $80 million a year thereafter. See Cautionary Statements on page 28. In addition, a largely noncash charge of $454 million was recognized in 1996 related to the impairment of certain investments in unconsolidated affiliates ($216 million), concentrate-related assets ($129 million), assets not related to the core International beverage business ($69 million) and our share of the unusual charges recorded by BAESA for restructuring actions and noncash accounting charges ($40 million).

International sales declined $183 million, primarily due to unfavorable currency translation impacts and lower volume of $41 million. The volume decline reflected lower concentrate shipments to franchisees, partially offset by higher packaged product sales to retailers.

International BCS decreased 2%. Excluding the fourth quarter impact of the unexpected loss of our Venezuelan bottler in August 1996, BCS declined 1%. A single-digit decline in Latin America was partially offset by strong double-digit growth in China and India.

International beverages reported operating losses of $846 million or a decline of $963 million. Excluding the unusual charges, International beverages reported an ongoing operating loss of $270 million or a decline of $387 million. The ongoing operating loss reflected broad-based increases in advertising and marketing expenses, higher-than-normal expenses from fourth quarter balance sheet adjustments and actions, increased net losses from our unconsolidated affiliates and a volume decline of $41 million. The increased net losses from our unconsolidated affiliates was driven by our 24% equity share of BAESA's operating losses.

1995 vs. 1994

North America

Sales in North America rose $369 million or 5%. The fifty-third week in 1994 reduced the sales growth by approximately 2 points. The sales growth reflected higher effective net pricing on most CSD packages, primarily in response to significantly higher packaging prices. Sales growth also benefited from increased volume, which contributed $92 million.

North American BCS increased 4%, reflecting double-digit growth in the Mountain Dew brand, solid increases in Brand Pepsi and strong double-digit growth in alternative beverages, led by Lipton brand tea and the All Sport brand.

North American profit increased $134 million or 12%. The fifty-third week in 1994 reduced the operating profit growth by approximately 2 points. Profit growth reflected the higher effective net pricing on CSD packages and concentrate which exceeded the increased packaging costs. Volume gains, driven by packaged products, contributed $46 million ($104 million excluding the impact of the fifty-third week) to the profit growth. Administrative expenses declined, reflecting savings from a 1994 consolidation of headquarters and field operations in the U.S. Selling and distribution expenses declined as a percentage of sales, in part reflecting higher pricing. Advertising and marketing expenses decreased, reflecting a reallocation of funds to support promotional discounts in the fountain channel, which is classified as a reduction of sales. In the aggregate,

advertising and marketing expenses and fountain discounts was about even with the prior year.

In 1995, North America continued to execute actions related to the 1992 U.S. restructuring. Benefits in 1995 were offset by incremental costs associated with the continued development and implementation of the restructuring. Net benefits of approximately $130 million were expected to begin to be realized in 1996 and to increase annually until fully realized in 1998.

International

International sales rose $447 million or 18%. The fifty-third week in 1994 reduced the sales growth by approximately 1 point. Start-up operations, principally in Eastern Europe, and net acquisitions, primarily of bottling operations in Asia, together contributed 5 points to the sales growth. Sales growth also benefited from volume advances of $205 million and higher effective net pricing.

International BCS grew 8%. This advance reflected broad-based growth partially offset by declines in Mexico, our largest International BCS market, and Argentina, both of which had adverse economic conditions.

International beverages reported a profit decrease of $19 million or 14%. Ongoing operating profit declined $1 million or 1%. The fifty-third week in 1994 reduced the ongoing operating profit decline by approximately 2 points. The slight decline in ongoing operating profit primarily reflected significantly weaker results in Mexico (discussed below). Excluding Mexico, ongoing operating profit increased $64 million or 44%, reflecting increased volume, primarily concentrate, of $58 million and the higher effective net pricing, partially offset by higher field operating costs and increased headquarters expenses. Profit was also aided by a gain on the sale of a bottling plant.

As discussed in Management's Analysis – International Businesses beginning on page 18, results in Mexico were adversely impacted by economic difficulties resulting from the significant devaluation of the peso. Net sales in Mexico declined 37%, while 1995 operating results declined to a $27 million operating loss, including losses of $12 million from unconsolidated affiliates formed in 1995, compared to a $38 million operating profit in 1994.

"Mayall II" is a globular cluster of at least 300,000 tightly packed stars in orbit around the Andromeda galaxy.

Snack Foods

($ in millions)	**1996**	1995	1994	% Growth Rates **1996**	1995
Net Sales					
North America	**$6,618**	$5,863	$5,356	**13**	9
International	**3,062**	2,682	2,908	**14**	(8)
	$9,680	$8,545	$8,264	**13**	3
Operating Profit					
North America	**$1,286**	$1,149	$1,043	**12**	10
International	**346**	301	354	**15**	(15)
	$1,632	$1,450	$1,397	**13**	4

[Note: Net sales and operating profit comparisons within the 1995 vs. 1994 discussions include the impact of the fifty-third week in 1994 (see Notes 2 and 19), while pound or kilo growth have been adjusted to exclude its impact.]

1996 vs. 1995

North America

Sales in North America grew $755 million. The sales increase reflected strong volume growth of $495 million and higher effective net pricing across all core brands in late 1995 and late 1996. Volume grew in almost all core brands, with low-fat and no-fat snacks accounting for over 45% of the sales growth.

Pound volume in North America advanced 9%, reflecting exceptional performance from the low-fat and no-fat categories. These categories contributed over 45% of the total pound growth, led by Baked Lay's brand potato crisps. Core brands, excluding their low-fat and no-fat versions, had mid-single-digit growth led by double-digit growth in Lay's brand potato chips and strong double-digit growth in Tostitos brand tortilla chips.

Profit in North America grew $137 million. The profit increase reflected the volume growth, which contributed $224 million, and the higher effective net pricing, which exceeded increased promotional price allowances and merchandising support. The growth rate of promotional price allowances moderated in the fourth quarter. These gains were partially offset by higher operating and manufacturing costs and increased administrative expenses. The increased operating costs reflected increased selling and distribution and advertising expenses. Selling and distribution expenses and manufacturing costs both reflected higher capacity costs and some inefficiencies incurred to capture the volume opportunities created when Anheuser-Busch exited the salty snack food business. These inefficiencies began to moderate in the fourth quarter. Operating expenses grew faster than sales for the year. The increase in operating expenses coupled with higher administrative expenses, partially reflected investment spending to sustain strong volume growth. This increased investment spending, including costs of developing and testing new products, was partially offset by a gain on the sale of a non-core business.

International

International sales increased $380 million. The sales increase reflected inflation-based pricing increases in Mexico and volume growth of $157 million, partially offset by an unfavorable currency translation impact, led by the peso.

International kilo growth is reported on a systemwide basis, which includes both consolidated businesses and unconsolidated affiliates operating for at least one year. Salty snack kilos rose 8%, reflecting double-digit growth at Sabritas in Mexico and strong single-digit growth by Walkers in the U.K., our two largest salty snack businesses. Sweet snack

kilos declined 2%, led by a single-digit decline at Gamesa in Mexico, due to market-wide contraction and a double-digit decline at Alegro, the sweet snack division of Sabritas.

International operating profit increased $45 million. The increase reflected higher effective net pricing in advance of inflation-driven product and operating cost increases, primarily in Mexico, and the increased volumes of $28 million. These gains were partially offset by increased administrative expenses and the net unfavorable currency translation impact. Advertising and marketing expenses increased, partially reflecting investment in global advertising and design.

Beginning in 1997, we will categorize Mexico as highly inflationary and, therefore, the U.S. dollar will be the functional currency. Although difficult to estimate, we expect the 1997 reported results of our Sabritas and Gamesa operations to be slightly lower than what they would have been had we retained the peso as our functional currency. See Cautionary Statements on page 28.

1995 vs. 1994

North America

Sales in North America grew $507 million or 9%. The fifty-third week in 1994 reduced the sales growth by approximately 2 points. The increase reflected volume growth of $427 million and higher pricing across all core brands. Volume grew in almost all core brands, with low-fat and no-fat snacks accounting for almost 45% of the total sales growth.

Pound volume in North America advanced 11%, reflecting exceptional performance from the low-fat and no-fat categories. These categories contributed almost 45% of the total pound growth, led by Rold Gold brand pretzels and Baked Tostitos brand tortilla chips. Core brands, excluding their low-fat and no-fat versions, had solid single-digit growth, led by Doritos brand tortilla chips and Lay's brand potato chips.

Profit in North America grew $106 million or 10%. The fifty-third week in 1994 reduced the profit growth by approximately 3 points. The profit increase reflected strong volume growth, which contributed $196 million ($247 million excluding the impact of the fifty-third week), and higher pricing that exceeded increased promotional price allowances and merchandising support. This growth was partially offset by increased operating costs, driven by higher selling, distribution and administrative expenses and increased marketing investment to promote strong volume momentum. Selling and distribution expenses grew at about the same rate as sales, while advertising and marketing costs grew slower than sales. The higher administrative expenses reflected investment spending to maintain volume growth, including new manufacturing and delivery systems. The profit growth was also hampered by higher manufacturing costs, reflecting increased capacity costs and an unfavorable sales mix shift to lower-margin value-oriented packages.

International

As discussed in Management's Analysis – International Businesses beginning on page 18, 1995 results in Mexico were adversely impacted by economic difficulties resulting from the significant devaluation of the peso. This effect was particularly dramatic on International snack foods results as Mexico represented almost 75% of its 1994 operating profit. Net sales in Mexico declined 39% in 1995, while operating profit declined $113 million or 44% to $142 million. As a result, Mexico represented about half of 1995 International snack foods profit. Since the change in results of Mexico had such a distortive effect on International results, the following net sales and operating profit discussions exclude the effects of Mexico where noted.

International sales decreased $226 million or 8%. Excluding Mexico, sales grew more than 35%; the fifty-third week in 1994 reduced the sales growth by approximately 3 points. This growth reflected increased volumes of $272 million, a favorable mix shift to higher-priced packages and products and acquisitions, which contributed $43 million.

Salty snack kilos rose 10%, reflecting strong double-digit volume growth in Brazil, the U.K. and our joint ventures in the Netherlands and Spain. Sweet snack kilos grew 12%, led by a double-digit advance at Gamesa.

International operating profit decreased $53 million. The fifty-third week in 1994 had no effect on operating profit. The principal cause of the decrease in operating profit was the economic difficulties in Mexico. Excluding Mexico, operating profit increased $58 million or 58%. The fifty-third week in 1994 reduced this profit growth by approximately 2 points. Profit growth reflected the favorable mix shift to higher-priced packages and products and increased volumes of $45 million, partially offset by higher manufacturing costs and increased administrative expenses.

Restaurants

An update to our restaurant strategy is provided to set the context of the operating results discussion beginning on page 25.

Strategy Update

In January 1997, we announced that we would pursue a plan to spin off our core restaurant businesses to our shareholders as an independent publicly-traded company. The new company will include both the U.S. and international operations of Pizza Hut, Taco Bell and KFC. We are exploring the possibility of selling PepsiCo Food Systems (PFS), our restaurant distribution operation. In the first quarter of 1996, we recorded a $26 million charge related to a decision to dispose of Hot 'n Now (HNN). In the fourth quarter, we recognized an impairment loss of $220 million as a result of our decision to sell our remaining non-core U.S. restaurant businesses which include California Pizza Kitchen (CPK), Chevys, D'Angelo Sandwich Shops (D'Angelo) and East Side Mario's (ESM). We reduced our investments in these businesses to estimated fair market value, less costs to sell. Estimated fair market value was based primarily upon the opinion of an investment banking firm. See Notes 3 and 4 and Cautionary Statements on page 28.

In addition, we will continue to execute the strategy we initiated two years ago to reduce our percentage ownership in our restaurant businesses by selling company-operated restaurants to franchisees (refranchising) and closing underperforming units. Although this refranchising strategy reduces reported sales, it improves restaurants returns and profit by eliminating capital investment in stores while generating a franchise royalty revenue stream which, in some cases, exceeds the profit we had earned from the stores prior to refranchising. In addition, margins benefit from the closing of underperforming stores in the company-operated portfolio. Operating profit and cash flows benefit from the one-time refranchising gains (including initial franchise fees). Our restaurant companies have usually remained contingently liable for restaurant leases assigned as part of the refranchising activity; however, we believe any risk of loss under these assignments would not be material.

Restaurant Unit Activity
Company-Operated and Joint Venture

	U.S.	International	Worldwide
December 31, 1994	10,500	3,119	13,619
New Builds & Acquisitions	427	347	774
Refranchising & Licensing	(302)	(12)	(314)
Closures	(272)	(40)	(312)
December 30, 1995*	10,353	3,414	13,767
New Builds & Acquisitions	**213**	**241**	**454**
Refranchising & Licensing	**(605)**	**(50)**	**(655)**
Transfers	**(5)**	**–**	**(5)**
Closures	**(294)**	**(85)**	**(379)**
December 28, 1996**	**9,662**	**3,520**	**13,182**
Units as a percent of the total system			
December 31, 1994	54%	42%	51%
December 30, 1995	51%	42%	49%
December 28, 1996	**46%**	**41%**	**45%**

* *As of year-end 1995, closure costs had been recorded for 185 units (141-U.S., 44-international) which were expected to be closed in the future.*

** *As of year-end 1996, closure costs had been recorded for 270 units (249-U.S., 21-international) which were expected to be closed in the future.*

As a result of the unit activity, coupled with net new points of distribution added by our franchisees and licensees, our overall ownership percentage of total system units declined 4 points to 45% at year-end 1996 and 2 points to 49% at year-end 1995, driven by declines in the U.S. Total system units grew 4% and 6% in 1996 and 1995, respectively.

Refranchising and closures affected worldwide restaurants operating profit as follows:

($ in millions)	**1996**	1995	1994
U.S.			
Refranchising gains	**$134**	$ 89	$ –
Store closure costs	**(45)**	(26)	(10)
Net refranchising gains/(losses)	**$ 89**	$ 63	$(10)
International			
Refranchising gains	**$ 5**	$ 4	
Store closure costs	**5**	(12)	
Net refranchising gains/(losses)	**$ 10**	$ (8)	
Worldwide			
Refranchising gains	**$139**	$ 93	$ –
Store closure costs	**(40)**	(38)	(10)
Net refranchising gains/(losses)	**$ 99**	$ 55	$(10)

In 1997, the refranchising program will be expanded at Pizza Hut U.S., Taco Bell U.S. and international restaurants and will also be extended to include KFC U.S. restaurants. See Cautionary Statements on page 28.

Operating Results

The operating results presented below include Pizza Hut, Taco Bell and KFC in both the U.S. and international results. In addition, U.S. results include PFS as well as CPK, Chevys, D'Angelo, ESM and HNN.

($ in millions)	**1996**	1995	1994	% Growth Rates **1996**	% Growth Rates 1995
Net Sales					
U.S.	**$ 9,110**	$ 9,206	$ 8,696	**(1)**	6
International	**2,331**	2,122	1,825	**10**	16
	$11,441	$11,328	$10,521	**1**	8
Operating Profit					
Reported					
U.S.	**$ 370**	$ 726	$ 637	**(49)**	14
International	**153**	112	86	**37**	30
	$ 523	$ 838	$ 723	**(38)**	16
*Ongoing**					
U.S.	**$ 616**	$ 726	$ 637	**(15)**	14
International	**153**	112	86	**37**	30
	$ 769	$ 838	$ 723	**(8)**	16

* *Excluded $246 of charges related to the disposal of our non-core U.S. restaurant businesses (see Note 3).*

[Note: Net sales and operating profit comparisons within the following discussions include the impact of the fifty-third week in 1994 (see Notes 2 and 19), while same store sales growth has been adjusted to exclude its impact.]

1996 vs. 1995

U.S.

Net sales decreased $96 million. The decrease was driven by volume declines of $286 million, partially due to lapping the second quarter 1995 introduction of Stuffed Crust Pizza, and the unfavorable impact of fewer company units of $272 million. These declines were partially offset by higher effective net pricing and the consolidation of CPK at the end of the second quarter of 1996. Same store sales decreased 4% and 2% at Pizza Hut and Taco Bell, respectively, reflecting fewer transaction counts. KFC's same store sales increased 6% due primarily to the impact of new products such as Tender Roast Chicken, Colonel's Crispy Strips and Chunky Chicken Pot Pies.

Reported operating profit declined $356 million. Ongoing operating profit decreased $110 million because of higher store operating costs, a volume decrease of $166 million and recurring noncash SFAS 121 impairment charges of $54 million. The higher store operating costs reflected increased labor and food costs, partially offset by reduced depreciation and amortization expense of $30 million in connection with the adoption of SFAS 121. The above effects were partially offset by the higher effective net pricing which exceeded the increased store operating costs, and by a net refranchising gain of $89 million in 1996 compared to $63 million in 1995.

International

International sales increased $209 million, driven by the favorable impact of net additional company units of $112 million, higher effective net pricing and increased volumes, which contributed $52 million.

Operating profit increased $41 million, reflecting the higher effective net pricing, a net refranchising gain in 1996 of $10 million compared to a net refranchising loss in 1995 of $8 million, $18 million due to net additional company units and increased volumes of $15 million. These benefits were partially offset by higher store operating costs, increased administrative and support costs and an $8 million recurring noncash SFAS 121 impairment

charge. The higher store operating costs, which exceeded the higher effective net pricing, primarily reflected increased food prices and higher labor costs and advertising expenses. These increased store operating costs were partially offset by reduced depreciation and amortization expense of $10 million in connection with the adoption of SFAS 121. The profit growth also benefited from increased equity income.

1995 vs. 1994

U.S.

Net sales increased $510 million or 6%. The fifty-third week in 1994 reduced the sales growth by approximately 1 point. The sales growth reflected $378 million from net additional company units and higher effective net pricing, partially offset by $52 million of volume declines. Same store sales increased 4% and 7% at Pizza Hut and KFC, respectively, driven by new products. Taco Bell's same store sales declined 4% due to fewer transaction counts.

Operating profit grew $89 million or 14%. The fifty-third week in 1994 reduced the profit growth by approximately 5 points. The growth included a net refranchising gain of $63 million in 1995 as well as $12 million for the write-off of costs associated with sites that will not be developed (undeveloped sites). This compared to $10 million of store closure costs and $6 million of undeveloped site costs in 1994. Profit growth was also aided by the net additional company units, which contributed $54 million, and lower depreciation and amortization expense of $11 million in connection with the adoption of SFAS 121. These benefits were partially offset by the lower volumes of $27 million ($24 million excluding the impact of the fifty-third week) and increased overhead costs, primarily due to a $17 million charge in 1995 to move Pizza Hut's U.S. headquarters from Wichita to Dallas.

International

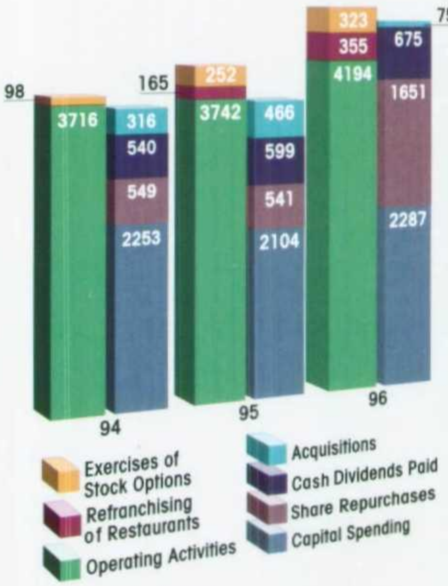
International net sales increased $297 million or 16%. The fifty-third week in 1994 reduced the sales growth by approximately 2 points. The sales increase primarily reflected additional units of $244 million.

International operating profit increased $26 million or 30%. The fifty-third week in 1994 reduced the operating profit growth rate by approximately 5 points. The increased profit reflected higher effective net pricing and net additional company units that contributed $22 million. It also reflected reduced depreciation and amortization expense of $6 million as a result of the 1995 adoption of SFAS 121. These gains were partially offset by higher store operating costs, increased administrative and support costs and a $17 million reduction in volume ($14 million excluding the impact of the fifty-third week). Profit growth was also hampered by $8 million of net refranchising losses in 1995 and equity losses in 1995 compared to equity earnings in 1994.

Consolidated Cash Flows

Consolidated cash flows in 1996 reflected strong cash flows from operating activities of $4.2 billion, cash from restaurant refranchising of $355 million and cash from stock option exercises of $323 million. The cash funded capital spending of $2.3 billion, share repurchases of $1.7 billion and dividend payments of $675 million. Debt payments of $801 million were substantially funded by short-term investment proceeds of $775 million.

Net Cash Provided by Operating Activities, Refranchising of Restaurants and Exercises of Stock Options vs. Capital Spending, Share Repurchases, Cash Dividends Paid and Acquisitions
$ in Millions



Net cash provided by operating activities increased $452 million or 12% to $4.2 billion in 1996 due primarily to operating working capital cash inflows of $179 million in 1996 compared to net cash outflows of $411 million in 1995. The change in operating working capital cash flows primarily reflected slower growth in accounts and notes receivable in 1996 compared to 1995, higher growth in accounts payable and other current liabilities and slower growth in inventories. The slower growth in accounts and notes receivable reflected lower sales by International beverages and a sale of $134 million of U.S. trade accounts receivable in 1996 to take advantage of favorable effective financing rates. The growth in accounts payable and other current liabilities was driven primarily by accruals related to the 1996 unusual charges and timing of payments, partially offset by the impact of our accounts payable amount remaining about the same as 1995. These cash flow favorabilities were partially offset by the tax-related decision to stop prefunding certain employee benefits at the end of 1995.

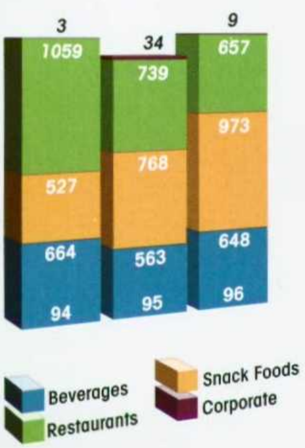
Net cash provided by operating activities in 1995 rose $26 million or 1% over 1994 to $3.7 billion, primarily reflecting improved income before noncash charges and credits largely offset by the effect of operating working capital cash outflows of $411 million in 1995 compared to cash inflows of $31 million in 1994.

Net cash used for investing activities in 1996 decreased $1.2 billion or 48% to $1.3 billion compared to an $89 million or 4% increase in 1995 to $2.5 billion. The 1996 decline was principally due to the repatriation of funds we had held in Puerto Rico. We manage the investment activity in our short-term portfolios, which are primarily held outside the U.S., as part of our overall financing strategy. We continually reassess our alternatives to redeploy them considering investment opportunities and risks, tax consequences and current financing activity. As a result of the Small Business Job Protection Act of 1996, our exemption from U.S. Federal income tax on investment income generated in Puerto Rico was completely

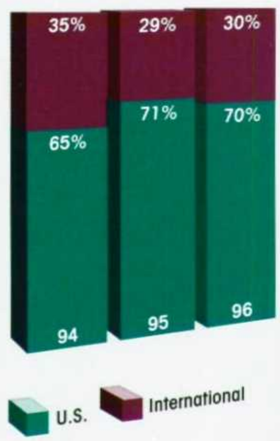
eliminated effective as of December 1, 1996. Accordingly, as our investments in Puerto Rico mature, we are repatriating the proceeds and using them to reduce outstanding commercial paper debt. We repatriated $690 million in 1996.

Capital spending increased $183 million, reflecting higher North American snack foods investments of $195 million, primarily for capacity expansion. Increased spending in worldwide beverages of $85 million was offset by decreased spending in worldwide restaurants, primarily in the U.S., of $82 million. In 1995, capital spending declined $149 million reflecting substantially reduced spending in restaurants. Increased 1995 North American snack foods spending, primarily for capacity expansion and new products, was partially offset by a decline in beverages. Capital spending outside of the U.S. represented 30%, 29% and 35% of total capital spending in 1996, 1995 and 1994, respectively.

Capital Spending By Segment
$ in Millions



Capital Spending
$ in Millions



Net cash used for financing activities more than doubled in 1996 to $2.9 billion, primarily reflecting a $1.1 billion increase in our share repurchases and increased debt payments of $498 million. Net cash used for financing activities in 1995 of $1.2 billion was unchanged from the prior year.

Our share repurchase activity was as follows:

(in millions)	1996	1995	1994
Cost	**$1,651**	$ 541	$549
Shares repurchased			
Number of shares	**54.2**	24.6	30.0
% of shares outstanding at beginning of year	**3.4%**	1.6%	1.9%

At December 28, 1996, 51.4 million shares are available under the current repurchase authority granted by our Board of Directors.

Free cash flow is the measure we use internally to evaluate our cash flow performance.

($ in millions)	1996	1995	1994
Net cash provided by operating activities	**$ 4,194**	$ 3,742	$ 3,716
Cash dividends paid	**(675)**	(599)	(540)
Investing activities			
Capital spending	**(2,287)**	(2,104)	(2,253)
Refranchising of restaurants	**355**	165	–
Sales of property, plant and equipment	**57**	138	55
Other, net	**(100)**	(247)	(268)
Free cash flow	**$ 1,544**	$ 1,095	$ 710

In 1996, free cash flow increased $449 million or 41%, reflecting the strong increase in net cash provided by operating activities. Higher proceeds from restaurant refranchising were offset by higher capital spending. In 1995, free cash flow advanced $385 million or 35% due primarily to refranchising of restaurants and the lower capital spending.

Consolidated Financial Condition

Assets decreased $920 million or 4% to $24.5 billion. The decline reflected the repatriation of funds from our investment portfolio in Puerto Rico, the impact of the unusual impairment, disposal and other charges of $822 million (see Note 3) and the effects of the restaurant program to refranchise stores and close underperforming stores, partially offset by normal business growth. Short-term investments largely represent high-grade marketable securities portfolios held outside the U.S. As discussed, we are repatriating the funds from our portfolio in Puerto Rico as our investments mature and we are using them to reduce our short-term debt. Our Puerto Rico portfolio totaled $126 million at year-end 1996 and $816 million at year-end 1995. We expect to repatriate most of the year-end 1996 balance in 1997. The increase in prepaid expenses, deferred income taxes and other current assets principally reflected a reclassification of the carrying amount of our non-core U.S. restaurant long-lived assets, partially offset by a significant decline in current deferred income taxes. These non-core restaurant assets are now being held for disposal and carried at estimated fair market value.

Liabilities decreased $230 million or 1% to $17.9 billion. The decline reflected the pay-down of short-term debt with the funds repatriated from Puerto Rico, partially offset by increased accounts payable and other current liabilities, due in part to the International beverages restructuring charge.

At year-end 1996 and 1995, $3.5 billion of short-term borrowings were reclassified as long-term, reflecting our intent and ability, through the existence of our unused revolving credit facilities, to refinance these borrowings. Our unused credit facilities, which exist largely to support the issuances of short-term borrowings, were $3.5 billion at year-end 1996 and 1995. Effective January 10, 1997, we extended to 2002 $3.3 billion of these credit facilities. Annually, these facilities can be extended an additional year upon the mutual consent of PepsiCo and the lending institutions.

Our strong cash-generating capability and our strong financial condition give us ready access to capital markets throughout the world.

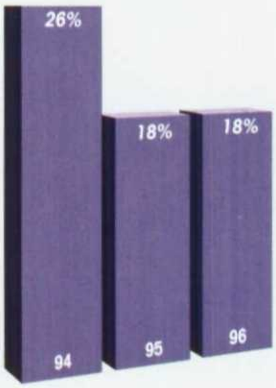
We measure **financial leverage** on both a market value and historical cost basis. We believe that the most meaningful measure of debt is on a net basis, which takes into account our investment portfolios held outside the U.S. These portfolios are managed as part of our overall financing strategy and are not required to support day-to-day operations. Net debt reflects the pro forma remittance of the portfolios (net of related taxes) as a reduction of total debt. Total debt includes the present value of operating lease commitments.

We also use market leverage to measure our long-term financial leverage. We define market leverage as net debt as a percent of net debt plus the market value of equity, based on the year-end stock price. Unlike historical cost measures, the market value of equity primarily reflects the estimated net present value of expected future cash flows that will both support debt and provide returns to shareholders.

The market net debt ratio was unchanged in 1996, largely because the 6% increase in our year-end stock price was offset by a 2% decline in our shares outstanding. In 1995, the market net debt ratio declined 8 points to 18% due primarily to a 54% increase in our stock price.

Measured on a historical cost basis, the ratio of net debt to net capital employed (defined as net debt, other liabilities, deferred income taxes and shareholders' equity) increased 2 points to 48% in 1996, reflecting a 3% decline in net capital employed. The 3-point decline to 46% in 1995 reflected a 2% decline in net debt and a 4% increase in net capital employed.

Market Net Debt Ratio



Historical Net Debt Ratio

Our negative operating working capital position, which reflects the cash sales nature of our restaurant operations partially offset by our more working capital intensive packaged goods businesses, effectively provides additional capital for investment. Operating working capital, which excludes short-term investments and short-term borrowings, was a negative $313 million and negative $94 million at year-end 1996 and 1995, respectively. The $219 million increase in negative working capital in 1996 primarily reflected reclassifications of a portion of other liabilities and deferred income taxes to income taxes payable and accounts payable and other current liabilities, respectively, and a decline in operating working capital in our International beverages business. The increase was partially offset by the reclassification of our non-core U.S. restaurant long-lived assets held for disposal to prepaid expenses, deferred income taxes and other current assets in the Consolidated Balance Sheet. The decline in International beverages reflected higher accrued liabilities due to the restructuring charge, coupled with lower receivables from a decline in sales.

Shareholders' Equity decreased $690 million or 9% to $6.6 billion. This change was the result of a $1.3 billion increase in treasury stock, reflecting repurchases of 54.2 million shares offset by 22.7 million shares used for stock option exercises. This decrease was mitigated by a 5% increase in retained earnings due to $1.1 billion in net income less dividends declared of $695 million.

Cautionary Statements

From time to time, in written reports and oral statements, we discuss our expectations regarding future performance of the Company. These "forward-looking statements" are based on currently available competitive, financial and economic data and our operating plans. They are also inherently uncertain, and investors must recognize that events could turn out to be significantly different from what we had expected. In addition, as discussed in the Management's Analysis:

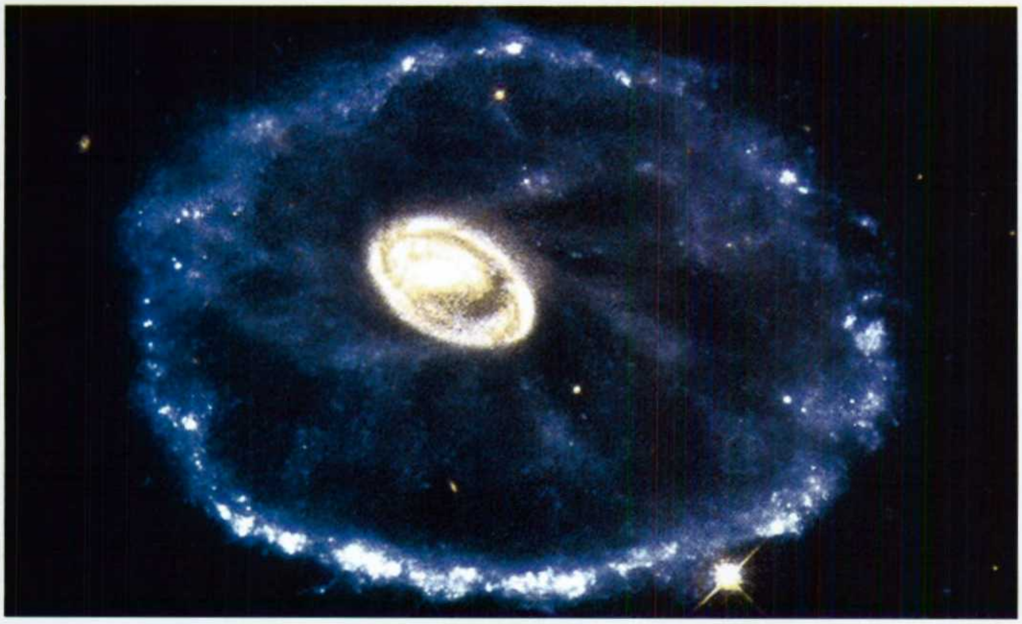
- The forecasted annual savings of $50 million in 1997, and about $80 million a year thereafter related to the International beverages restructuring charge (page 22) assumes that facilities are vacated and employees are terminated within the time frames used to develop the estimate.
- The expectation that our reported results in Mexico will be slightly lower than what they would have been had we not changed our functional currency from the peso to the U.S. dollar (page 24) assumes that the peso will not devalue significantly in 1997.
- The spin-off of our core restaurant businesses (page 24) is subject to receipt of a tax ruling by the Internal Revenue Service that would allow it to be tax free to our shareholders, various regulatory approvals, appropriate stock market conditions for distribution and final approval by our Board of Directors.
- The impairment charge recorded to reduce our investment in our non-core U.S. restaurant businesses to estimated fair market value assumed certain sales prices based primarily upon the opinion of an investment banking firm. These estimates could vary significantly from the final sales prices (page 24).
- Our ability to execute our restaurant refranchising program (page 25) depends on our ability to find investors to purchase our restaurants at prices we consider appropriate.

Consolidated Statement of Income

(in millions except per share amounts)
PepsiCo, Inc. and Subsidiaries
Fiscal years ended December 28, 1996, December 30, 1995 and December 31, 1994

	1996 (52 Weeks)	1995 (52 Weeks)	1994 (53 Weeks)
Net Sales	**$31,645**	$30,255	$28,351
Costs and Expenses, net			
Cost of sales	**15,383**	14,886	13,715
Selling, general and administrative expenses	**12,593**	11,546	11,123
Amortization of intangible assets	**301**	316	312
Unusual impairment, disposal and other charges	**822**	520	–
Operating Profit	**2,546**	2,987	3,201
Gain on stock offering by an unconsolidated affiliate	**–**	–	18
Interest expense	**(600)**	(682)	(645)
Interest income	**101**	127	90
Income Before Income Taxes and Cumulative Effect of Accounting Changes	**2,047**	2,432	2,664
Provision for Income Taxes	**898**	826	880
Income Before Cumulative Effect of Accounting Changes	**1,149**	1,606	1,784
Cumulative Effect of Accounting Changes			
Postemployment benefits (net of income tax benefit of $29)	**–**	–	(55)
Pension assets (net of income tax expense of $15)	**–**	–	23
Net Income	**$ 1,149**	$ 1,606	$ 1,752
Income (Charge) Per Share			
Before cumulative effect of accounting changes	**$ 0.72**	$ 1.00	$ 1.11
Cumulative effect of accounting changes			
Postemployment benefits	**–**	–	(0.03)
Pension assets	**–**	–	0.01
Net Income Per Share	**$ 0.72**	$ 1.00	$ 1.09
Average shares outstanding	**1,606**	1,608	1,608

See accompanying Notes to Consolidated Financial Statements.



"Cartwheel Galaxy" is the result of a rare and spectacular head-on collision between two galaxies. A smaller intruding galaxy careened through the core of the larger, host galaxy sending ripples of energy into space. It's located 500 million light-years away in the southern constellation Sculptor.

Consolidated Statement of Cash Flows

(in millions)
PepsiCo, Inc. and Subsidiaries
Fiscal years ended December 28, 1996, December 30, 1995 and December 31, 1994

	1996 (52 Weeks)	1995 (52 Weeks)	1994 (53 Weeks)
Cash Flows – Operating Activities			
Income before cumulative effect of accounting changes	$ 1,149	$ 1,606	$ 1,784
Adjustments to reconcile income before cumulative effect of accounting changes to net cash provided by operating activities			
Depreciation and amortization	1,719	1,740	1,577
Noncash portion of unusual impairment, disposal and other charges	601	520	–
Deferred income taxes	11	(111)	(67)
Other noncash charges and credits, net	535	398	391
Changes in operating working capital, excluding effects of acquisitions			
Accounts and notes receivable	(70)	(434)	(112)
Inventories	(28)	(129)	(102)
Prepaid expenses, deferred income taxes and other current assets	(30)	76	1
Accounts payable and other current liabilities	427	173	189
Income taxes payable	(120)	(97)	55
Net change in operating working capital	179	(411)	31
Net Cash Provided by Operating Activities	4,194	3,742	3,716
Cash Flows – Investing Activities			
Capital spending	(2,287)	(2,104)	(2,253)
Acquisitions and investments in unconsolidated affiliates	(75)	(466)	(316)
Refranchising of restaurants	355	165	–
Sales of property, plant and equipment	57	138	55
Short-term investments, by original maturity			
More than three months-purchases	(160)	(289)	(219)
More than three months-maturities	195	335	650
Three months or less, net	740	18	(10)
Other, net	(100)	(247)	(268)
Net Cash Used for Investing Activities	(1,275)	(2,450)	(2,361)
Cash Flows – Financing Activities			
Proceeds from issuances of long-term debt	1,773	2,030	1,285
Payments of long-term debt	(1,424)	(928)	(1,180)
Short-term borrowings, by original maturity			
More than three months-proceeds	747	2,053	1,304
More than three months-payments	(1,873)	(2,711)	(1,728)
Three months or less, net	(24)	(747)	114
Cash dividends paid	(675)	(599)	(540)
Share repurchases	(1,651)	(541)	(549)
Proceeds from exercises of stock options	323	252	98
Other, net	(46)	(42)	(44)
Net Cash Used for Financing Activities	(2,850)	(1,233)	(1,240)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(4)	(8)	(11)
Net Increase in Cash and Cash Equivalents	65	51	104
Cash and Cash Equivalents – Beginning of Year	382	331	227
Cash and Cash Equivalents – End of Year	$ 447	$ 382	$ 331
Supplemental Cash Flow Information			
Interest paid	$ 573	671	591
Income taxes paid	$ 679	790	663

See accompanying Notes to Consolidated Financial Statements.

Consolidated Balance Sheet

(in millions except per share amount)
PepsiCo, Inc. and Subsidiaries
December 28, 1996 and December 30, 1995

	1996	1995
ASSETS		
Current Assets		
Cash and cash equivalents	$ 447	$ 382
Short-term investments, at cost	339	1,116
	786	1,498
Accounts and notes receivable, less allowance: $183 in 1996 and $150 in 1995	2,516	2,407
Inventories	1,038	1,051
Prepaid expenses, deferred income taxes and other current assets	799	590
Total Current Assets	5,139	5,546
Property, Plant and Equipment, net	10,191	9,870
Intangible Assets, net	7,136	7,584
Investments in Unconsolidated Affiliates	1,375	1,635
Other Assets	671	797
Total Assets	$24,512	$25,432
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and other current liabilities	$ 4,626	$ 4,137
Income taxes payable	487	387
Short-term borrowings	26	706
Total Current Liabilities	5,139	5,230
Long-term Debt	8,439	8,509
Other Liabilities	2,533	2,495
Deferred Income Taxes	1,778	1,885
Shareholders' Equity		
Capital stock, par value 1 2/3¢ per share: authorized 3,600 shares, issued 1,726 shares	29	29
Capital in excess of par value	1,201	1,045
Retained earnings	9,184	8,730
Currency translation adjustment and other	(768)	(808)
	9,646	8,996
Less: Treasury stock, at cost: 181 shares and 150 shares in 1996 and 1995, respectively	(3,023)	(1,683)
Total Shareholders' Equity	6,623	7,313
Total Liabilities and Shareholders' Equity	$24,512	$25,432

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Shareholders' Equity

(in millions except per share amounts)
PepsiCo, Inc. and Subsidiaries
Fiscal years ended December 28, 1996, December 30, 1995 and December 31, 1994

	Capital Stock Issued		Capital Stock Treasury		Capital in Excess of Par Value	Retained Earnings	Translation Adjustment and Other	Total
	Shares	Amount	Shares	Amount				
Shareholders' Equity, December 25, 1993	1,726	$29	(128)	$ (913)	$ 865	$6,542	$(184)	$6,339
1994 Net income	–	–	–	–	–	1,752	–	1,752
Cash dividends declared (per share–$0.35)	–	–	–	–	–	(555)	–	(555)
Currency translation adjustment	–	–	–	–	–	–	(295)	(295)
Share repurchases	–	–	(30)	(549)	–	–	–	(549)
Stock option exercises, including tax benefits of $27	–	–	10	81	44	–	–	125
Shares issued in connection with acquisitions	–	–	2	15	14	–	–	29
Pension liability adjustment, net of deferred taxes of $5	–	–	–	–	–	–	8	8
Other	–	–	–	5	(3)	–	–	2
Shareholders' Equity, December 31, 1994	1,726	$29	(146)	$(1,361)	$ 920	$7,739	$(471)	$6,856
1995 Net income	–	–	–	–	–	1,606	–	1,606
Cash dividends declared (per share–$0.39)	–	–	–	–	–	(615)	–	(615)
Currency translation adjustment	–	–	–	–	–	–	(337)	(337)
Share repurchases	–	–	(24)	(541)	–	–	–	(541)
Stock option exercises, including tax benefits of $91	–	–	20	218	125	–	–	343
Other	–	–	–	1	–	–	–	1
Shareholders' Equity, December 30, 1995	1,726	$29	(150)	$(1,683)	$1,045	$8,730	$(808)	$7,313
1996 Net income	**–**	**–**	**–**	**–**	**–**	**1,149**	**–**	**1,149**
Cash dividends declared (per share–$0.445)	**–**	**–**	**–**	**–**	**–**	**(695)**	**–**	**(695)**
Currency translation adjustment	**–**	**–**	**–**	**–**	**–**	**–**	**40**	**40**
Share repurchases	**–**	**–**	**(54)**	**(1,651)**	**–**	**–**	**–**	**(1,651)**
Stock option exercises, including tax benefits of $145	**–**	**–**	**23**	**310**	**158**	**–**	**–**	**468**
Other	**–**	**–**	**–**	**1**	**(2)**	**–**	**–**	**(1)**
Shareholders' Equity, December 28, 1996	**1,726**	**$29**	**(181)**	**$(3,023)**	**$1,201**	**$9,184**	**$(768)**	**$6,623**

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

(tabular dollars in millions except per share amounts)

Note 1 – Summary of Significant Accounting Policies

The preparation of the Consolidated Financial Statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Certain reclassifications were made to prior year amounts to conform with the 1996 presentation.

Principles of Consolidation. The financial statements reflect the consolidated accounts of PepsiCo, Inc. and its controlled affiliates. Intercompany accounts and transactions have been eliminated. Investments in unconsolidated affiliates in which PepsiCo exercises significant influence but not control are accounted for by the equity method and PepsiCo's share of the net income or loss of its unconsolidated affiliates is included in selling, general and administrative expenses.

Fiscal Year. PepsiCo's fiscal year ends on the last Saturday in December and, as a result, a fifty-third week is added every five or six years. The fiscal year ending December 31, 1994 consisted of 53 weeks.

Marketing Costs. Marketing costs are reported in selling, general and administrative expenses and include costs of advertising and other marketing activities. Marketing costs not deferred at year-end are charged to expense ratably in relation to sales over the year in which incurred. Advertising expenses were $1.9 billion, $1.8 billion and $1.7 billion in 1996, 1995 and 1994, respectively. Advertising expenses deferred at year-end, which are classified in prepaid expenses, deferred income taxes and other current assets in the Consolidated Balance Sheet, were $49 million and $78 million in 1996 and 1995, respectively. Deferred advertising consists of media and personal service advertising-related prepayments, promotional materials in inventory and production costs of future media advertising; these assets are expensed in the year first used.

Research and Development Expenses. Research and development expenses, which are expensed as incurred, were $115 million, $96 million and $152 million in 1996, 1995 and 1994, respectively.

Stock-Based Compensation. PepsiCo measures stock-based compensation cost as the excess of the quoted market price of PepsiCo's capital stock at the grant date over the amount the employee must pay for the stock. PepsiCo's policy is to generally grant stock options at fair market value at the date of grant.

Stock Split. On May 1, 1996 PepsiCo's Board of Directors authorized a two-for-one stock split of PepsiCo's capital stock effective for shareholders of record at the close of business on May 10, 1996. The number of authorized shares was increased from 1.8 billion to 3.6 billion. The information in the Consolidated Financial Statements, as well as all other share data in this report, have been adjusted to reflect the stock split and the increase in authorized shares. The par value remains 1 2/3 cents per share, with capital in excess of par value reduced to reflect the total par value of the additional shares.

Net Income Per Share. Net income per share is computed by dividing net income by the weighted average number of shares and dilutive share equivalents (primarily stock options) outstanding (average shares outstanding).

Derivative Instruments. The interest differential to be paid or received on an interest rate swap is recognized as an adjustment to interest expense as the differential occurs. The interest differential not yet settled in cash is reflected in the Consolidated Balance Sheet as a receivable or payable under the appropriate current asset or liability caption. If an interest rate swap position was to be terminated, the gain or loss realized upon termination would be deferred and amortized to interest expense over the remaining term of the underlying debt instrument it was intended to modify or would be recognized immediately if the underlying debt instrument was settled prior to maturity.

The differential to be paid or received on a currency swap related to non-U.S. dollar denominated debt is charged or credited to income as the differential occurs. This is fully offset by the corresponding gain or loss recognized in income on the currency translation of the debt, as both amounts are based upon the same exchange rates. The currency differential not yet settled in cash is reflected in the Consolidated Balance Sheet under the appropriate current or noncurrent receivable or payable caption. If a currency swap position was to be terminated prior to maturity, the gain or loss realized upon termination would be immediately recognized in income.

A seven-year put option, issued in connection with the formation of a joint venture with the principal shareholder of Grupo Embotellador de Mexico, S.A. (GEMEX) in 1995, an unconsolidated franchised bottling affiliate in Mexico, is marked-to-market with gains or losses recognized currently as an adjustment to PepsiCo's share of the net income of unconsolidated affiliates. The offsetting amount adjusts the carrying amount of the put obligation which is classified in other liabilities in the Consolidated Balance Sheet.

Gains and losses on futures contracts designated as hedges of future commodity purchases are deferred and included in the cost of the related raw materials when purchased. Changes in the value of futures contracts that PepsiCo uses to hedge commodity purchases are highly correlated to the changes in the value of the purchased commodity. If the degree of correlation between the futures contracts and the purchase contracts were to diminish such that the two were no longer considered highly correlated, subsequent changes in the value of the futures contracts would be recognized in income.

Cash Equivalents. Cash equivalents represent funds temporarily invested (with original maturities not exceeding three months) as part of PepsiCo's management of day-to-day operating cash receipts and disbursements. All other investment portfolios, largely held outside the U.S., are primarily classified as short-term investments.

Inventories. Inventories are valued at the lower of cost (computed on the average, first-in, first-out or last-in, first-out method) or net realizable value.

Property, Plant and Equipment. Property, plant and equipment (PP&E) are stated at cost, except for PP&E that have been impaired, for which the carrying amount is reduced to estimated fair market value. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets.

Intangible Assets. Intangible assets are amortized on a straight-line basis over appropriate periods, generally ranging from 20 to 40 years.

Recoverability of Long-Lived Assets to be Held and Used in the Business. PepsiCo reviews most long-lived assets, certain identifiable intangibles and goodwill related to those assets to be held and used in the business semi-annually for impairment, or whenever events or changes in circumstances indicate that the carrying amount of an asset or a group of assets may not be recoverable. PepsiCo uses a history of operating losses as its primary indicator of potential impairment. Assets are grouped and evaluated for impairment at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets (Assets). PepsiCo has identified the appropriate grouping of Assets to be individual restaurants for the restaurants segment and, for each of the snack foods and beverages segments, Assets are generally grouped at the country level. An impaired Asset is written down to its estimated fair market value based on the best information available; PepsiCo generally measures estimated fair market value by discounting estimated future cash flows. Considerable management judgment is necessary to estimate discounted future cash flows. Accordingly, actual results could vary significantly from such estimates.

PepsiCo's methodology for determining and measuring impairment of its investments in unconsolidated affiliates and enterprise level goodwill was changed in 1996 to conform with the methodology it uses when applying the provisions of Statement of Financial Accounting Standards No. 121 (SFAS 121), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," except (a) the recognition test for an investment in an unconsolidated affiliate compares the investment to a forecast of PepsiCo's share of the unconsolidated affiliate's undiscounted cash flows including interest and taxes, compared to undiscounted cash flows before interest and taxes used for all other long-lived assets and (b) enterprise level goodwill is evaluated at a country level for the restaurants segment, instead of by individual restaurant. The change in methodology did not have a material impact in 1996.

This giant starbirth region is embedded in a nearby galaxy, located nearly 3 million light-years away in the constellation Triangulum. It is a particularly large nebula, nearly 1,500 light-years across.

Note 2 – Items Affecting Comparability of Income Before Cumulative Effect of Accounting Changes

	1996		1995		1994	
	(a)	**Per Share**	(a)	Per Share	(a)	Per Share
Unusual Items						
Unusual impairment, disposal and other charges	**$ 822**	**$ 0.45**	$520	$ 0.24		
Gain on stock offering by an unconsolidated affiliate					$(18)	$(0.01)
	$ 822	**$ 0.45**	$520	$ 0.24	$(18)	$(0.01)
Other Items						
Refranchising gains	**$(139)**	**$(0.05)**	$ (93)	$(0.03)		
Store closure costs	**40**	**0.01**	38	0.01	$ 10	$ –
Net refranchising (gains)/losses	**(99)**	**(0.04)**	(55)	(0.02)	10	–
Reduced depreciation and amortization	**(46)**	**(0.02)**	(21)	(0.01)		
Recurring restaurant impairment charges	**62**	**0.03**				
Fifty-third week					(54)	(0.02)
	$ (83)	**$(0.03)**	$ (76)	$(0.03)	$(44)	$(0.02)

(a) Pre-tax amounts.

See Note 3 for information regarding unusual impairment, disposal and other charges.

See Note 17 for information regarding the 1994 gain from a public share offering by Buenos Aires Embotelladora S.A. (BAESA), our Latin American bottling joint venture.

Net refranchising (gains)/losses reflected PepsiCo's strategy to reduce its ownership in its restaurant businesses by selling company-operated restaurants to franchisees and closing underperforming units. See Management's Analysis – Restaurants beginning on page 24.

Reduced depreciation and amortization reflected the reduced carrying amount of PepsiCo's long-lived assets to be held and used in the business as a result of the fourth quarter 1995 adoption of SFAS 121. See Items Affecting Comparability – Unusual Impairment, Disposal and Other Charges in Note 19 for the estimated impact of the reduced depreciation and amortization on segment operating profit.

See Note 4 for information regarding the 1996 recurring restaurant impairment charges.

The fifty-third week in 1994 increased 1994 net sales by an estimated $434 million. See Items Affecting Comparability – Fiscal Year in Note 19 for the estimated impact of the fifty-third week on segment net sales and operating profit.

Note 3 – Unusual Impairment, Disposal and Other Charges

	1996		1995	
	(a)	**Per Share**	(a)	Per Share
International beverages	**$576**	**$0.33**		
Non-core U.S. restaurant businesses	**246**	**0.12**		
Initial adoption of SFAS 121			$520	$0.24
	$822	**$0.45**	$520	$0.24

(a) Pre-tax amounts.

PepsiCo recognized unusual impairment, disposal and other charges of $822 million ($716 million after-tax or $0.45 per share) in 1996. The International beverages charge included $454 million ($429 million after-tax or $0.27 per share) related primarily to investments in unconsolidated affiliates and concentrate-related and non-core assets (primarily packaging) and its 24% equity share of unusual charges recorded by BAESA. In addition, it included a restructuring charge of $122 million ($98 million after-tax or $0.06 per share) related to a fourth quarter reorganization into 10 business units and reduction of support staff. The charge primarily reflected severance-related costs, relocation costs for employees who, in 1996, accepted offers to relocate and facility closing costs. Included in the International beverages charges are impairment charges of $373 million (see Note 4).

The non-core U.S. restaurant businesses charge of $246 million ($189 million after-tax or $0.12 per share) was a result of a decision made by PepsiCo in the fourth quarter of 1996 to dispose of its non-core U.S. restaurant businesses; California Pizza Kitchen (CPK), Chevys, D'Angelo Sandwich Shops (D'Angelo) and East Side Mario's (ESM) and a first quarter decision to dispose of Hot 'n Now (HNN). The charge was primarily composed of impairment charges and estimated disposal costs (see Note 4). The remaining carrying amount of the assets of these non-core U.S. restaurant businesses of $333 million is included in 1996 in Prepaid expenses, deferred income taxes and other current assets in the Consolidated Balance Sheet as PepsiCo plans to dispose of them in 1997. The non-core U.S. restaurant businesses contributed $394 million, $297 million and $281 million to net sales in 1996, 1995 and 1994, respectively. Excluding the unusual impairment, disposal and other charges in 1996 and 1995, the non-core U.S. restaurant businesses incurred operating losses of $10 million, $42 million and $40 million in 1996, 1995 and 1994, respectively.

PepsiCo early adopted SFAS 121 as of the beginning of the fourth quarter of 1995. The initial, noncash charge upon adoption of SFAS 121 was $520 million ($384 million after-tax or $0.24 per share). See Note 4.

Note 4 – Impairment of Long-Lived Assets

Impairment charges of $681 million ($396 million after-tax or $0.25 per share) in 1996 and $520 million ($384 million after-tax or $0.24 per share) in 1995 included in the Consolidated Statement of Income are set forth below:

	1996	1995
International beverages		
Investments in unconsolidated affiliates	**$210**	$ –
Concentrate-related assets	**110**	–
Non-core assets	**53**	–
	373	–
Non-core U.S. restaurant businesses	**246**	–
Initial adoption of SFAS 121	**–**	520
Unusual charges	**619**	520
Restaurants-recurring SFAS 121 charges	**62**	–
	$681	$520

The unusual charges and the recurring restaurant charges are included in unusual impairment, disposal and other charges and selling, general and administrative expenses, respectively, in the Consolidated Statement of Income.

The impairment charges represented a reduction of the carrying amounts of impaired Assets to their estimated fair market value. For assets to be held and used in the business, estimated fair market value was generally determined by using discounted estimated future cash flows. The estimated fair market value for assets to be disposed of was determined by using estimated selling prices based primarily upon the opinion of an investment banking firm, less costs to sell. Considerable management judgment is necessary to estimate fair market value. Accordingly, actual results could vary significantly from such estimates.

The International beverages assets were deemed impaired due to a reduction in forecasted cash flows that was attributable to increased competitive activity and weakened macroeconomic factors in various geographic regions and an estimate of the fair market value, less costs to sell, of certain non-core businesses PepsiCo decided to dispose of.

The charges for PepsiCo's non-core U.S. restaurant businesses were a result of decisions made by PepsiCo to dispose of its non-core U.S. restaurant businesses: CPK, Chevys, D'Angelo, ESM and HNN. See Note 3.

The recurring SFAS 121 restaurant charge resulted from the semi-annual impairment evaluations of all restaurants that either initially met the "two-year history of operating losses" impairment indicator that PepsiCo uses to identify potentially impaired restaurants or were previously evaluated for impairment and, due to changes in circumstances, a current forecast of future cash flows would be expected to be significantly lower than the forecast used in the prior evaluation.

PepsiCo early adopted Statement of Financial Accounting Standards No. 121 (SFAS 121), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," as of the beginning of the fourth quarter of 1995. The initial charge resulted from PepsiCo grouping assets at a lower level than under its previous accounting policy for evaluating and measuring impairment. This initial charge affected worldwide restaurants, International beverages and, to a much lesser extent, International snack foods and certain unconsolidated affiliates.

As a result of the reduced carrying amount of certain long-lived assets due to the adoption of SFAS 121, depreciation and amortization expense for the fourth quarter of 1995 was reduced by $21 million ($15 million after-tax or $0.01 per share) and for the first three quarters of 1996 by $46 million ($29 million after-tax or $0.02 per share). See Items Affecting Comparability in Note 19.

Note 5 – Inventories

	1996	1995
Raw materials and supplies	**$ 571**	$ 550
Finished goods	**467**	501
	$1,038	$1,051

The cost of 33% of 1996 inventories and 32% of 1995 inventories was computed using the last-in, first-out (LIFO) method. The carrying amount of total LIFO inventories was lower than the approximate current cost of those inventories by $8 million at year-end 1996 and $11 million at year-end 1995.

Note 6 – Property, Plant and Equipment, net

	1996	1995
Land	$ 1,294	$ 1,327
Buildings and improvements	5,838	5,668
Capital leases, primarily buildings	418	531
Machinery and equipment	9,503	8,598
Construction in progress	787	627
	17,840	16,751
Accumulated depreciation	(7,649)	(6,881)
	$10,191	$ 9,870

Note 7 – Intangible Assets, net

	1996	1995
Reacquired franchise rights	$3,684	$3,826
Trademarks	742	711
Other identifiable intangibles	220	286
Goodwill	2,490	2,761
	$7,136	$7,584

Identifiable intangible assets primarily arose from the allocation of purchase prices of businesses acquired. Amounts assigned to such identifiable intangibles were based on independent appraisals or internal estimates. Goodwill represents the residual purchase price after allocation to all identifiable net assets.

Accumulated amortization, included in the amounts above, was $2.1 billion and $1.8 billion at year-end 1996 and 1995, respectively.

Note 8 – Accounts Payable and Other Current Liabilities

	1996	1995
Accounts payable	$1,565	$1,556
Accrued compensation and benefits	847	815
Accrued selling and marketing	573	469
Other current liabilities	1,641	1,297
	$4,626	$4,137

Note 9 – Leases

PepsiCo has noncancelable commitments under both capital and long-term operating leases, primarily for restaurant units. Capital and operating lease commitments expire at various dates through 2087 and, in many cases, provide for rent escalations and renewal options. Most leases require payment of related executory costs, which include property taxes, maintenance and insurance. Sublease income and sublease receivables were insignificant.

Future minimum commitments under noncancelable leases are set forth below:

	Capital	Operating
1997	$ 47	$ 356
1998	67	317
1999	36	276
2000	34	243
2001	31	220
Later Years	239	1,139
Total	$454	$2,551

At year-end 1996, the present value of minimum payments under capital leases was $263 million, after deducting $1 million for estimated executory costs and $190 million representing imputed interest.

The details of rental expense are set forth below:

	1996	1995	1994
Minimum	$464	$452	$433
Contingent	28	27	32
	$492	$479	$465

Contingent rentals are based on sales by restaurants in excess of levels stipulated in the lease agreements.

Note 10 – Short-term Borrowings and Long-term Debt

	1996	1995
Short-term Borrowings		
Commercial paper (5.4% and 5.7%)**(A)**	$ 1,176	$ 2,006
Current maturities of long-term debt issuances **(A)(B)**	1,918	1,405
Other borrowings (6.0% and 7.4%)**(A)(C)**	432	795
Amount reclassified to long-term debt **(D)**	(3,500)	(3,500)
	$ 26	$ 706
Long-term Debt		
Short-term borrowings, reclassified **(D)**	$ 3,500	$ 3,500
Notes due 1997-2011 (6.4% and 6.4%) **(A)**	3,111	3,886
Various foreign currency debt, due 1997-2001 (5.5% and 5.6%) **(A)(C)**	1,448	677
Zero coupon notes, $1.5 billion due 1997-2012 (7.9% and 11.1% annual yield to maturity) **(A)**	930	395
Euro notes due 1997-1999 (5.5% and 5.7%) **(A)**	700	550
Swiss franc perpetual Foreign Interest Payment bonds **(E)**	39	214
Capital lease obligations (See Note 9)	263	294
Other, due 1997-2020 (7.1% and 7.4%)	366	398
	10,357	9,914
Less current maturities of long-term debt issuances **(B)**	(1,918)	(1,405)
	$ 8,439	$ 8,509

The interest rates in the above table included the effects of associated interest rate and currency swaps at year-end 1996 and 1995. See Note 11 for a discussion of PepsiCo's use of interest rate and currency swaps, its management of the inherent credit risk and fair value information related to debt and interest rate and currency swaps.

The carrying amount of long-term debt includes any related discount or premium and unamortized debt issuance costs. The debt agreements include various restrictions, none of which are currently significant to PepsiCo.

The annual maturities of long-term debt through 2001, excluding capital lease obligations and the reclassified short-term borrowings, are: 1997-$1.9 billion, 1998-$1.9 billion, 1999-$1.1 billion, 2000-$952 million and 2001-$218 million.

(A) The following table indicates the notional amount and weighted average interest rates, by category, of interest rate swaps outstanding at year-end 1996 and 1995, respectively. The weighted average variable interest rates that PepsiCo pays, which are primarily indexed to either commercial paper or LIBOR rates, were based on rates as of the respective balance sheet date and are subject to change. Terms of interest rate

swaps generally match the terms of the debt they modify. The swaps terminate at various dates through 2011.

	1996	1995
Receive fixed-pay variable		
Notional amount	**$3,976**	$2,657
Weighted average receive rate	**6.6%**	6.8%
Weighted average pay rate	**5.5%**	5.7%
Receive variable-pay variable		
Notional amount	**$ 552**	$ 577
Weighted average receive rate	**5.5%**	5.7%
Weighted average pay rate	**5.7%**	5.8%
Receive variable-pay fixed		
Notional amount	**$ 215**	$ 215
Weighted average receive rate	**5.6%**	5.8%
Weighted average pay rate	**8.2%**	8.2%

The following table identifies the composition of total debt (excluding capital lease obligations and before the reclassification of amounts from short-term borrowings) after giving effect to the impact of interest rate swaps. All short-term borrowings are considered variable interest rate debt for purposes of this table.

	1996		1995	
	Carrying Amount	**Weighted Average Interest Rate**	Carrying Amount	Weighted Average Interest Rate
Variable interest rate debt				
Short-term borrowings	**$3,504**	**5.7%**	$4,177	6.4%
Long-term debt	**2,573**	**5.5%**	2,103	5.8%
	6,077	**5.6%**	6,280	6.2%
Fixed interest rate debt	**2,125**	**7.9%**	2,641	7.4%
	$8,202	**6.2%**	$8,921	6.6%

(B) Included certain long-term notes aggregating $110 million, which are reasonably expected to be called, without penalty, by PepsiCo in 1997. The 1996 amount was $248 million. The expectation is based upon the belief of PepsiCo management that, based upon projected yield curves, our counterparties to interest rate swaps, which were entered into to modify these notes, will exercise their option to early terminate the swaps without penalty. Also included in 1995 is the $214 million carrying amount of the Swiss franc perpetual Foreign Interest Payment bonds in 1995, which were expected to be redeemed in 1996. At year-end 1996, $39 million of these bonds were still outstanding and are classified as long-term debt (see **(E)** below).

(C) PepsiCo has entered into currency swaps to hedge its currency exposure on non-U.S. dollar denominated debt. At year-end 1996, the aggregate carrying amount of the debt was $1.8 billion and the receivables and payables under related currency swaps were $54 million and $59 million, respectively, resulting in a net effective U.S. dollar liability of $1.8 billion with a weighted average interest rate of 5.6%, including the effects of related interest rate swaps. At year-end 1995, the carrying amount of this debt aggregated $696 million and the receivables and payables under related currency swaps aggregated $5 million and $12 million, respectively, resulting in a net effective U.S. dollar liability of $703 million with a weighted average interest rate of 5.8%, including the effects of related interest rate swaps.

(D) At year-end 1996 and 1995, PepsiCo had unused revolving credit facilities covering potential borrowings aggregating $3.5 billion expiring in 2001 and 2000, respectively. Effective January 10, 1997, PepsiCo extended to 2002 $3.3 billion of the credit facilities. At year-end 1996 and 1995, $3.5 billion of short-term borrowings were classified as long-term debt, reflecting PepsiCo's intent and ability, through the existence of the unused credit facilities, to refinance these borrowings. These credit facilities exist largely to support the issuances of short-term borrowings and are available for general corporate purposes.

(E) The coupon rate of the Swiss franc 400 million perpetual Foreign Interest Payment bonds issued in 1986 was 7 1/2% through 1996, and 5.6% through 2006. The bonds have no stated maturity date. At the end of each 10-year period after the issuance of the bonds, PepsiCo and the bondholders each have the right to cause redemption of the bonds. If not redeemed, the coupon rate will be adjusted based on the prevailing yield of 10-year U.S. Treasury Securities. The principal of the bonds is denominated in Swiss francs. PepsiCo can, and intends to, limit the ultimate redemption amount to the U.S. dollar proceeds at issuance, which is the basis of the carrying amount. Interest payments are made in U.S. dollars and are calculated by applying the coupon rate to the original U.S. dollar principal proceeds. This debt was included in current maturities of long-term debt (see **(B)** above) at year-end 1995 because the bondholders had the right to cause PepsiCo to redeem the debt in 1996 on its 10-year anniversary date. During 1996, $175 million of this debt was redeemed.

Note 11 – Financial Instruments

Derivative Instruments

PepsiCo's policy prohibits the use of derivative instruments for trading purposes and PepsiCo has procedures in place to monitor and control their use.

PepsiCo's use of derivative instruments is primarily limited to interest rate and currency swaps, which are entered into with the objective of reducing borrowing costs. PepsiCo enters into interest rate and currency swaps to effectively change the interest rate and currency of specific debt issuances. These swaps are generally entered into concurrently with the issuance of the debt they are intended to modify. The notional amount, interest payment dates and maturity dates of the swaps generally match the principal, interest payment dates and maturity dates of the related debt. Accordingly, any market risk or opportunity associated with these swaps is offset by the opposite market impact on the related debt. PepsiCo's credit risk related to interest rate and currency swaps is considered low because they are only entered into with strong creditworthy counterparties, are generally settled on a net basis and are of relatively short duration. See Note 10 for the notional amounts, related interest rates and maturities of the interest rate and currency swaps.

Fair Value

The carrying amounts and fair values of PepsiCo's financial instruments are as follows:

	1996		1995	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Assets				
Cash and cash equivalents	**$ 447**	**$ 447**	$ 382	$ 382
Short-term investments	**$ 339**	**$ 339**	$1,116	$1,116
Other assets (noncurrent investments)	**$ 15**	**$ 15**	$ 23	$ 23
Liabilities				
Debt				
Short-term borrowings and long-term debt, net of capital leases	**$8,202**	**$8,298**	$8,921	$9,217
Debt-related derivative instruments				
Open contracts in asset position	**(91)**	**(122)**	(25)	(96)
Open contracts in liability position	**62**	**74**	13	26
Net debt	**$8,173**	**$8,250**	$8,909	$9,147
Other liabilities (GEMEX put option)	**$ 28**	**$ 28**	$ 30	$ 30
Guarantees	**–**	**$ 25**	–	$ 4

The carrying amounts in the above table are included in the Consolidated Balance Sheet under the indicated captions, except for debt-related derivative instruments (interest rate and currency swaps), which are included in the appropriate current or noncurrent asset or liability caption. Short-term investments consist primarily of debt securities and have been classified as held-to-maturity. Noncurrent investments mature at various dates through 2000.

Because of the short maturity of cash equivalents and short-term investments, the carrying amount approximates fair value. The fair value of noncurrent investments is based upon market quotes. The fair value of debt, debt-related derivative instruments and guarantees is estimated using market quotes, valuation models and calculations based on market rates. The fair value of the GEMEX put option (see Note 1) is based upon a valuation model.

Note 12 – Employee Stock Options

PepsiCo grants stock options to employees pursuant to three different incentive plans – the SharePower Stock Option Plan (SharePower), the Long-Term Incentive Plan (LTIP) and the Stock Option Incentive Plan (SOIP). All stock option grants are authorized by the Compensation Committee of PepsiCo's Board of Directors (the Committee), which is comprised of outside directors.

Under SharePower, approved by the Board of Directors and effective in 1989, essentially all full-time employees, other than executive officers and short-service employees, may be granted stock options annually. The number of options granted is based on each employee's annual earnings. The options generally become exercisable ratably over 5 years from the grant date and must be exercised within 10 years of the grant date. SharePower options of 12 million were granted to approximately 130,000 employees in 1996; 16 million to 134,000 employees in 1995; and 23 million to 128,000 employees in 1994.

The shareholder-approved 1994 LTIP succeeds and continues the principal features of the shareholder-approved 1987 LTIP (the 1987 Plan). PepsiCo ceased making grants under the 1987 Plan at the end of 1994. Together these plans comprise the LTIP. At year-end 1996, there were 121 million shares available for future grants under the LTIP.

Most LTIP stock options are granted every other year to senior management employees. Most of these options become exercisable after 4 years and must be exercised within 10 years from their grant date. In addition, the LTIP allows for grants of performance share units (PSUs). The value of a PSU is fixed at the value of a share of stock at the grant date and vests for payment 4 years from the grant date, contingent upon attainment of prescribed Corporate performance goals. PSUs are not directly granted, as certain stock options granted may be exchanged by employees for a specified number of PSUs within 60 days of the option grant date. At year-end 1996, 1995 and 1994, there were 916,100, 1,198,200 and 1,258,400 PSUs outstanding, respectively. Payment of PSUs are made in cash and/or stock as approved by the Committee. Amounts expensed for PSUs were $5 million for both 1996 and 1995 and $7 million in 1994.

In 1995, the Committee approved the 1995 SOIP for middle-management employees. SOIP stock options are expected to be granted annually and are exercisable after 1 year and must be exercised within 10 years after their grant date. At year-end 1996, there were 37 million shares available for future grants under the SOIP. In 1994, grants similar to those under the SOIP were made under the LTIP to a more limited number of middle-management employees.

Effective in 1996, PepsiCo adopted the disclosure requirements of Statement of Financial Accounting Standards No. 123 (SFAS 123), "Accounting for Stock-Based Compensation." As permitted under SFAS 123, PepsiCo will continue to measure stock-based compensation cost as the excess of the quoted market price of PepsiCo's capital stock at the grant date over the amount the employee must pay for the stock.

SFAS 123 requires disclosure of pro forma net income and pro forma net income per share as if the fair value-based method had been applied in measuring compensation cost for stock-based awards granted in 1996 and 1995. Management believes that 1996 and 1995 pro forma amounts are not representative of the effects of stock-based awards on future pro forma net income and pro forma net income per share because those pro forma amounts exclude the pro forma compensation expense related to unvested stock options granted before 1995.

Reported and pro forma net income and net income per share amounts are set forth below:

	1996	1995
Reported		
Net income	**$1,149**	$1,606
Net income per share	**$ 0.72**	$ 1.00
Pro forma		
Net income	**$1,081**	$1,590
Net income per share	**$ 0.67**	$ 0.99

The fair values of the options granted were estimated on the date of their grant using the Black-Scholes option-pricing model based on the following weighted average assumptions:

	1996	1995
Risk free interest rate	**6.0%**	6.2%
Expected life	**6 years**	5 years
Expected volatility	**20%**	20%
Expected dividend yield	**1.5%**	1.75%

Stock option activity for 1996, 1995 and 1994 is set forth below:

(Options in thousands)	**1996**		1995		1994	
	Options	**Weighted Average Exercise Price**	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of year	**160,662**	**$16.10**	165,162	$14.60	133,570	$13.43
Granted	**51,305**	**31.19**	26,390	22.70	55,740	17.34
Exercised	**(22,687)**	**14.19**	(21,181)	11.91	(9,744)	10.01
Surrendered for PSUs	**(431)**	**29.91**	(201)	20.67	(3,082)	19.48
Forfeited	**(11,632)**	**23.13**	(9,508)	17.69	(11,322)	16.79
Outstanding at end of year	**177,217**	**20.22**	160,662	16.10	165,162	14.60
Exercisable at end of year	**80,482**	**14.92**	65,474	12.63	69,107	11.66
Weighted average fair value of options granted during the year	**$8.89**		$5.53			

Stock options outstanding at December 28, 1996:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
$ 4.38 to $ 8.79	14,163	2.51 yrs.	$ 6.55	11,089	$ 7.01
$ 8.82 to $17.63	63,658	5.35	14.70	49,653	14.41
$18.16 to $35.56	99,396	8.32	25.70	19,740	20.65
	177,217	6.79	20.22	80,482	14.92

Note 13 – Postemployment Benefits Other Than to Retirees

Effective the beginning of 1994, PepsiCo adopted Statement of Financial Accounting Standards No. 112 (SFAS 112), "Employers' Accounting for Postemployment Benefits." The principal effect to PepsiCo resulted from accruing severance benefits to be provided to employees of certain business units who are terminated in the ordinary course of business over the expected service lives of the employees. Previously, these benefits were accrued upon the occurrence of an event. Severance benefits resulting from actions not in the ordinary course of business will continue to be accrued when those actions occur. The cumulative effect charge upon adoption of SFAS 112, which relates to years prior to 1994, was $84 million ($55 million after-tax or $0.03 per share).

Note 14 – Postretirement Benefits Other Than Pensions

PepsiCo provides postretirement health care benefits to eligible retired employees and their dependents, principally in the U.S. Retirees who have 10 years of service and attain age 55 while in service with PepsiCo are eligible to participate in the postretirement benefit plans. The plans are not funded and were largely noncontributory through 1993.

Effective in 1993 and 1994, PepsiCo implemented programs intended to stem rising costs and introduced retiree cost-sharing, including adopting a provision that limits its future obligation to absorb health care cost inflation. These amendments resulted in an unrecognized prior service gain of $191 million, which is being amortized on a straight-line basis over the average remaining employee service period of approximately 10 years as a reduction in postretirement benefit expense beginning in 1993.

The components of postretirement benefit expense for 1996, 1995 and 1994 are set forth below:

	1996	1995	1994
Service cost of benefits earned	**$ 15**	$ 13	$ 19
Interest cost on accumulated postretirement benefit obligation	**46**	46	41
Amortization of prior service gain	**(20)**	(20)	(20)
Amortization of net loss/(gain)	**2**	(1)	6
	$ 43	$ 38	$ 46

The components of the 1996 and 1995 postretirement benefit liability recognized in the Consolidated Balance Sheet are set forth below:

	1996	1995
Actuarial present value of postretirement benefit obligation		
Retirees	**$(288)**	$(344)
Fully eligible active plan participants	**(103)**	(96)
Other active plan participants	**(166)**	(171)
Accumulated postretirement benefit obligation	**(557)**	(611)
Unrecognized prior service gain	**(115)**	(132)
Unrecognized net (gain)/loss	**(17)**	68
	$(689)	$(675)

The discount rate assumptions used to compute the accumulated postretirement benefit obligation were 7.8% and 7.7% in 1996 and 1995, respectively.

As a result of the plan amendments discussed above, separate assumed health care cost trend rates are used for employees who retire before and after the effective date of the amendments. The assumed health care cost trend rate for employees who retired before the effective date was 8.1% for 1997, declining gradually to 5.5% in 2010 and thereafter. For employees retiring after the effective date, the trend rate was 7.0% for 1997, declining to zero in 2004 and thereafter. A 1 point increase in the assumed health care cost trend rate would have increased the 1996 postretirement benefit expense by $2 million and would have increased the 1996 accumulated postretirement benefit obligation by $23 million.

Note 15 – Pension Plans

PepsiCo sponsors noncontributory defined benefit pension plans covering substantially all full-time U.S. employees as well as contributory and noncontributory defined benefit pension plans covering certain international employees. Benefits generally are based on years of service and compensation or stated amounts for each year of service. PepsiCo funds the U.S. plans in amounts not less than minimum statutory funding requirements nor more than the maximum amount that can be deducted for U.S. income tax purposes. International plans are funded in amounts sufficient to comply with local statutory requirements. The plans' assets consist principally of equity securities, government and corporate debt securities and other fixed-income obligations. The U.S. plans' assets included 12.2 million and 13.7 million shares of PepsiCo capital stock in1996 and 1995, with a market value of $344 million and $350 million, respectively. In the interest of maintaining an appropriate level of diversification within the U.S. plans' asset portfolio, 1.5 million shares of PepsiCo capital stock were sold during the 1996 plan year to offset the large increase in market value of PepsiCo capital stock holdings relative to other portfolio assets. Dividends on PepsiCo capital stock of $5 million were received by the U.S. plans in both 1996 and 1995.

The components of net pension expense for company-sponsored plans are set forth below:

	U.S. Plans			International Plans		
	1996	1995	1994	**1996**	1995	1994
Service cost of benefits earned	**$ 80**	$ 60	$ 70	**$ 13**	$ 11	$ 15
Interest cost on projected benefit obligation	**110**	92	84	**19**	16	15
Return on plan assets						
Actual (gain)/loss	**(192)**	(338)	20	**(39)**	(31)	8
Deferred gain/(loss)	**65**	221	(131)	**10**	6	(32)
	(127)	(117)	(111)	**(29)**	(25)	(24)
Amortization of net transition gain	**(19)**	(19)	(19)	**–**	–	–
Net other amortization	**12**	5	9	**1**	–	2
	$ 56	$ 21	$ 33	**$ 4**	$ 2	$ 8

Reconciliations of the funded status of the plans to the pension liability recognized in the Consolidated Balance Sheet are set forth below:

	U.S. Plans				International Plans			
	Assets Exceed Accumulated Benefits		Accumulated Benefits Exceed Assets		Assets Exceed Accumulated Benefits		Accumulated Benefits Exceed Assets	
	1996	1995	**1996**	1995	**1996**	1995	**1996**	1995
Actuarial present value of benefit obligation								
Vested benefits	**$(1,159)**	$ (824)	**$ (53)**	$(270)	**$(179)**	$(144)	**$(30)**	$(34)
Nonvested benefits	**(154)**	(110)	**(5)**	(30)	**(5)**	(2)	**(4)**	(1)
Accumulated benefit obligation	**(1,313)**	(934)	**(58)**	(300)	**(184)**	(146)	**(34)**	(35)
Effect of projected compensation increases	**(175)**	(155)	**(80)**	(78)	**(34)**	(23)	**(13)**	(12)
Projected benefit obligation	**(1,488)**	(1,089)	**(138)**	(378)	**(218)**	(169)	**(47)**	(47)
Plan assets at fair value	**1,547**	1,152	**17**	267	**289**	235	**17**	18
Plan assets in excess of (less than) projected benefit obligation	**59**	63	**(121)**	(111)	**71**	66	**(30)**	(29)
Unrecognized prior service cost	**65**	37	**23**	51	**4**	3	**–**	–
Unrecognized net (gain)/loss	**(53)**	(20)	**38**	34	**24**	16	**5**	4
Unrecognized net transition (gain)/loss	**(35)**	(51)	**–**	(3)	**(1)**	(1)	**3**	4
Adjustment required to recognize minimum liability	**–**	–	**–**	(26)	**–**	–	**(3)**	(2)
Prepaid (accrued) pension liability	**$ 36**	$ 29	**$ (60)**	$ (55)	**$ 98**	$ 84	**$(25)**	$(23)

The assumptions used to compute the information above are set forth below:

	U.S. Plans			International Plans		
	1996	1995	1994	**1996**	1995	1994
Expected long-term rate of return on plan assets	**10.0%**	10.0	10.0	**11.4%**	11.3	11.3
Discount rate – projected benefit obligation	**7.7%**	7.7	9.0	**8.4%**	8.8	9.3
Future compensation growth rate	**3.2%-6.6%**	3.3-6.6	3.3-7.0	**3.0%-10.5%**	3.0-11.8	3.0-8.5

The discount rates and rates of return for the international plans represent weighted averages.

In 1994, PepsiCo changed the method for calculating the market-related value of plan assets used in determining the return-on-assets component of annual pension expense and the cumulative net unrecognized gain or loss subject to amortization. Under the previous accounting method, the calculation of the market-related value of assets reflected amortization of the actual capital return on assets on a straight-line basis over a five-year period. Under the new method, the calculation of the market-related value of assets reflects the long-term rate of return expected by PepsiCo and amortization of the difference between the actual return (including capital, dividends and interest) and the expected return over a five-year period. PepsiCo believes the new method is widely used in practice and is preferable because it results in calculated plan asset values that more closely approximate fair value, while still

mitigating the effect of annual market-value fluctuations. This change resulted in a noncash benefit in 1994 of $38 million ($23 million after-tax or $0.01 per share) representing the cumulative effect of the change related to years prior to 1994.

Note 16 – Income Taxes

The details of the provision for income taxes on income before cumulative effect of accounting changes are set forth below:

		1996	1995	1994
Current:	Federal	**$520**	$ 706	$642
	Foreign	**262**	154	174
	State	**105**	77	131
		887	937	947
Deferred:	Federal	**102**	(92)	(64)
	Foreign	**(55)**	(18)	(2)
	State	**(36)**	(1)	(1)
		11	(111)	(67)
		$898	$ 826	$880

U.S. and foreign income before income taxes and cumulative effect of accounting changes are set forth below:

	1996	1995	1994
U.S.	**$2,015**	$1,792	$1,762
Foreign	**32**	640	902
	$2,047	$2,432	$2,664

PepsiCo operates centralized concentrate manufacturing facilities in Puerto Rico and Ireland under long-term tax incentives. The U.S. amount in the above table included approximately 73%, 70% and 50% in 1996, 1995 and 1994, respectively, (consistent with the income subject to U.S. tax) of the income from sales of concentrate manufactured in Puerto Rico. The increases in 1996 and 1995 reflected the effects of the 1993 U.S. Federal income tax legislation, which limited the U.S. Federal tax credit on income earned in Puerto Rico. See Management's Analysis — Provision for Income Taxes on page 20 for a discussion of the reduction of the U.S. Federal tax credit associated with beverage concentrate operations in Puerto Rico.

A reconciliation of the U.S. Federal statutory tax rate to PepsiCo's effective tax rate is set forth below:

	1996	1995	1994
U.S. Federal statutory tax rate	**35.0%**	35.0%	35.0%
State income tax, net of Federal tax benefit	**2.8**	2.0	3.2
Effect of lower taxes on foreign results (including Puerto Rico and Ireland)	**(0.9)**	(3.0)	(5.4)
Adjustment to the beginning-of-the-year deferred tax assets valuation allowance	**–**	–	(1.3)
Settlement of prior years' audit issues	**(2.4)**	(4.1)	–
Effect of unusual impairment, disposal and other charges	**8.9**	1.4	–
Nondeductible amortization of U.S. goodwill	**1.1**	1.0	0.8
Other, net	**(0.6)**	1.7	0.7
Effective tax rate	**43.9%**	34.0%	33.0%

In accordance with generally accepted accounting principles, deferred tax liabilities have not been recognized for bases differences that are essentially permanent in duration related to investments in foreign subsidiaries and unconsolidated affiliates. These differences, which consist primarily of unremitted earnings intended to be indefinitely reinvested, aggregated approximately $4.0 billion at year-end 1996 and $4.5 billion at year-end 1995, exclusive of amounts that if remitted in the future would result in little or no tax under current tax laws and the Puerto Rico tax incentive grant. Determination of the amount of unrecognized deferred tax liabilities is not practicable.

The details of the 1996 and 1995 deferred tax liabilities (assets) are set forth below:

	1996	1995
Intangible assets other than nondeductible goodwill	**$ 1,635**	$ 1,631
Property, plant and equipment	**387**	496
Safe harbor leases	**143**	165
Zero coupon notes	**103**	100
Other	**394**	257
Gross deferred tax liabilities	**2,662**	2,649
Net operating loss carryforwards	**(503)**	(418)
Postretirement benefits	**(254)**	(248)
Casualty claims	**(123)**	(119)
Various current liabilities and other	**(749)**	(790)
Gross deferred tax assets	**(1,629)**	(1,575)
Deferred tax assets valuation allowance	**560**	498
Net deferred tax assets	**(1,069)**	(1,077)
Net deferred tax liability	**$ 1,593**	$ 1,572
Included in		
Prepaid expenses, deferred income taxes and other current assets	**$ (185)**	$ (313)
Deferred income taxes	**1,778**	1,885
	$ 1,593	$ 1,572

The valuation allowance related to deferred tax assets increased by $62 million in 1996 primarily due to additions related to current year operating losses and temporary differences in a number of foreign and state jurisdictions.

Net operating loss carryforwards totaling $2.5 billion at year-end 1996 are available to reduce future tax of certain subsidiaries and are related to a number of foreign and state jurisdictions. Of these carryforwards, $21 million expire in 1997, $2.2 billion expire at various times between 1998 and 2010 and $291 million may be carried forward indefinitely.

Tax benefits associated with exercises of stock options of $145 million in 1996, $91 million in 1995 and $27 million in 1994 were credited to shareholders' equity.

Note 17 – Stock Offering by an Unconsolidated Affiliate

In 1993, PepsiCo entered into an arrangement with the principal shareholders of Buenos Aires Embotelladora S.A. (BAESA), a franchised bottler which currently has operations in Argentina, Brazil, Chile, Costa Rica and Uruguay, to form a joint venture. PepsiCo contributed certain assets, primarily bottling operations in Chile and Uruguay, while the principal shareholders contributed all of their shares in BAESA, representing 73% of the voting control and 43% of the ownership interest. Through this arrangement, PepsiCo's beneficial ownership in BAESA, which is accounted for by the equity method, was 26%. Under PepsiCo's partnership agreement with the principal shareholders of BAESA, voting control of BAESA will be transferred to PepsiCo no later than December 31, 1999.

On March 24, 1994, BAESA completed a public offering of 3 million American Depositary Shares (ADS) at $34.50 per ADS, which are traded on the New York Stock Exchange. In conjunction with the offering, PepsiCo and certain other shareholders exercised options for the equivalent of 2 million ADS. As a result of these transactions, PepsiCo's ownership in BAESA declined to 24%. The transactions generated cash proceeds for BAESA of $136 million. The resulting one-time, noncash gain to PepsiCo was $18 million ($17 million after-tax or $0.01 per share).

Note 18 – Contingencies

PepsiCo is subject to various claims and contingencies related to lawsuits, taxes, environmental and other matters arising out of the normal course of business. Management believes that the ultimate liability, if any, in excess of amounts already recognized arising from such claims or contingencies is not likely to have a material adverse effect on PepsiCo's annual results of operations or financial condition. PepsiCo was contingently liable under guarantees for $338 million and $283 million at year-end 1996 and 1995, respectively. At year-end 1996, $74 million represented contingent liabilities to lessors as a result of PepsiCo assigning its interest in real estate leases as a condition to the refranchising of company-operated restaurants. The $74 million represented the present value of the minimum payments of the assigned leases, excluding any renewal option periods, discounted at PepsiCo's pre-tax cost of debt. On a nominal basis, the contingent liability resulting from the assigned leases was $115 million. The balance of the contingent liabilities primarily reflected guarantees to support financial arrangements of certain unconsolidated affiliates and other restaurant franchisees.

This is the central region of the spiral galaxy M100, a member of the Virgo cluster of galaxies located over 50 million light-years away.

Note 19 – Business Segments

PepsiCo operates on a worldwide basis within three industry segments: beverages, snack foods and restaurants. However, as discussed in Note 21 and Management's Analysis – Restaurants on page 24, PepsiCo announced in 1997 that it would pursue a spin-off of its Pizza Hut, Taco Bell and KFC businesses to its shareholders as an independent publicly-traded company and explore the possibility that PFS would be sold separately. In addition, decisions were made in 1996 to sell PepsiCo's non-core U.S. restaurant businesses (see Note 3).

Beverages

The beverage segment (beverages) markets and distributes its Pepsi-Cola, Diet Pepsi, Mountain Dew and other brands worldwide, and 7UP, Diet 7UP, Mirinda, Pepsi Max and other brands internationally. Beverages manufactures concentrates of its brands for sale to franchised bottlers worldwide. Beverages operates bottling plants and distribution facilities located in North America and in various International markets for the production and distribution of company-owned and licensed brands. Beverages also manufactures and distributes ready-to-drink Lipton tea products in North America.

Beverages products are available in 191 countries and territories outside North America, including emerging markets such as China, the Czech Republic, Hungary, India, Poland, Russia and Slovakia. Principal International markets include Argentina, Brazil, China, Mexico, Saudi Arabia, Spain, Thailand and the U.K. Investments in unconsolidated affiliates are primarily in franchised bottling and distribution operations. Internationally, the largest investments in unconsolidated affiliates are GEMEX (Mexico), General Bottlers (Poland), Serm Suk (Thailand) and SOPRESA (Venezuela) as well as the aggregate of several investments in China. The primary investment in the U.S. is General Bottlers.

Snack Foods

The snack food segment (snack foods) manufactures, distributes and markets salty and sweet snacks worldwide, with Frito-Lay representing the North American business. Products primarily manufactured and distributed in North America include Lay's and Ruffles brand potato chips, Doritos and Tostitos brand tortilla chips, Fritos brand corn chips, Chee•tos brand cheese flavored snacks, Rold Gold brand pretzels, a variety of dips and salsas and other brands. Low-fat and no-fat versions of several core brands are also manufactured and distributed in North America. Snack foods products are available in 81 countries and territories outside North America. Principal International markets include Australia, Brazil, France, Mexico, the Netherlands, Poland, Spain and the U.K. International snack foods manufactures and distributes salty snacks in almost all countries and sweet snacks in certain countries, primarily in France, Mexico and Poland. Snack foods has investments in several unconsolidated affiliates outside the U.S., the largest of which are Snack Ventures Europe (SVE), a joint venture with General Mills, Inc., which has operations on the conti-

nent of Europe, and an investment in Simba, a snack food operation in South Africa.

Restaurants

The restaurant segment (restaurants) is engaged principally in the operation, development, franchising and licensing of the worldwide Pizza Hut, Taco Bell and KFC concepts. Restaurants also operates other non-core U.S. businesses including CPK, Chevys, D'Angelo, ESM and HNN. PepsiCo Restaurant Services Group (PRSG), a new unit formed in 1996 which also includes the existing operations of PFS, PepsiCo's restaurant distribution operation, is responsible for the consolidation of many restaurants activities. The activities include licensing arrangements in non-traditional locations, real estate and asset management and accounting services for the U.S. operations, in addition to worldwide procurement. PFS provides food, supplies and equipment to company-operated, franchised and licensed units, principally in the U.S. Net sales and the related estimated operating profit of PFS' franchisee and licensee operations have been included in U.S. restaurants results.

Pizza Hut, Taco Bell and KFC operate throughout the U.S. Pizza Hut, KFC and, to a lesser extent, Taco Bell operate in 94 countries and territories outside the U.S. Principal international markets include Australia, Canada, Japan, Korea, Mexico, New Zealand, Spain and the U.K. Restaurants has investments in several unconsolidated affiliates outside the U.S., the most significant of which are located in Japan and the U.K.

Unallocated expenses, net included corporate headquarters expenses, minority interests, primarily in the Gamesa (Mexico) and Wedel (Poland) snack food businesses, foreign exchange translation and transaction gains and losses and other items not allocated to the business segments. Corporate identifiable assets consist principally of cash and cash equivalents and short-term investments, primarily held outside the U.S.

PepsiCo has invested in about 85 unconsolidated affiliates in which it exercises significant influence but not control. As noted above, the investments are primarily international and principally within PepsiCo's three industry segments.

PepsiCo's year-end investments in unconsolidated affiliates totaled $1.4 billion in 1996 and $1.6 billion in 1995. The decrease in 1996 reflected the unusual impairment, disposal and other charges of $256 million recorded by International beverages (see below) and the consolidation of CPK, previously an unconsolidated equity investment, at the end of the second quarter of 1996. Significant investments in unconsolidated affiliates at year-end 1996 included a combined $306 million in General Bottlers U.S. and Poland, $206 million in GEMEX, $140 million in a KFC Japan joint venture and $99 million in SVE.

Items Affecting Comparability

Unusual Impairment, Disposal and Other Charges

Beverages and restaurants operating profit and equity (loss) income included $320 million, $246 million and $256 million, respectively, of unusual impairment, disposal and other charges in 1996. The charges included in beverages operating profit and equity (loss) income reflected impairment, disposal and other costs related to International investments in unconsolidated affiliates and concentrate-related and non-core assets as well as costs associated with a restructuring of International operations. The restaurants charge reflected management's decisions in 1996 to dispose of all of its non-core U.S. restaurant businesses: CPK, Chevys, D'Angelo, ESM and HNN. See Note 3.

PepsiCo adopted SFAS 121 as of the beginning of the fourth quarter of 1995. See Note 4. The initial, noncash charges reduced operating profit as follows:

	1995
Beverages	$ 62
Snack Foods	4
Restaurants*(a)*	437
Combined Segments	503
Equity (Loss) Income*(b)*	17
	$520

(a) HNN and Chevys incurred $103 of this charge, with HNN responsible for almost all of the charge.
(b) Primarily related to CPK.

As a result of the reduced carrying amount of certain of PepsiCo's long-lived assets to be held and used in the business in connection with the 1995 adoption of SFAS 121, depreciation and amortization expense for the first three quarters of 1996 and the fourth quarter of 1995 was reduced by $46 million and $21 million, respectively, as follows:

	1996	1995
Beverages	**$ 6**	$ 4
Restaurants	**40**	16
Equity (Loss) Income	**–**	1
	$46	$21

Recurring Restaurant Impairment

Restaurants operating profit in 1996 included impairment charges of $62 million as a result of the ongoing application of SFAS 121 to long-lived assets held and used in the business. See Note 4.

Net Refranchising Gains

Restaurants operating profit in 1996 and 1995 included net gains of $99 million and $55 million, respectively, from refranchising of restaurants in excess of the cost of closing other restaurants. These gains compared to $10 million of costs in 1994 to close stores.

Fiscal Year

Fiscal year 1994 consisted of 53 weeks, and the years 1995 and 1996 consisted of 52 weeks. The fifty-third week increased 1994 consolidated net sales by an estimated $434 million and beverages, snack foods and restaurants net sales by $119 million, $143 million and $172 million, respectively. The fifty-third week increased 1994 consolidated operating profit by an estimated $65 million and beverages, snack foods and restaurants operating profit by $17 million, $26 million and $23 million, respectively, and increased unallocated expenses, net by $1 million.

INDUSTRY SEGMENTS

	1996	1995	1994
NET SALES			
Beverages	$10,524	$10,382	$ 9,566
Snack Foods	9,680	8,545	8,264
Restaurants	11,441	11,328	10,521
	$31,645	$30,255	$28,351
OPERATING PROFIT (b)			
Beverages	$ 890	$ 1,309	$ 1,217
Snack Foods	1,608	1,432	1,377
Restaurants	511	430	730
Combined Segments	3,009	3,171	3,324
Equity (Loss) Income	(266)	(3)	38
Unallocated Expenses, net	(197)	(181)	(161)
Operating Profit	$ 2,546	$ 2,987	$ 3,201
Depreciation Expense			
Beverages	$ 440	$ 445	$ 385
Snack Foods	346	304	297
Restaurants	546	579	539
Corporate	7	7	7
	$ 1,339	$ 1,335	$ 1,228
Amortization of Intangible Assets			
Beverages	$ 164	$ 166	$ 165
Snack Foods	41	41	42
Restaurants	96	109	105
	$ 301	$ 316	$ 312

	1996	1995	1994
Capital Spending (a)			
Beverages	$ 650	$ 566	$ 677
Snack Foods	973	769	532
Restaurants	665	750	1,072
Corporate	9	34	7
	$ 2,297	$ 2,119	$ 2,288
United States	$ 1,613	$ 1,496	$ 1,492
International	684	623	796
	$ 2,297	$ 2,119	$ 2,288
Acquisitions and Investments in Unconsolidated Affiliates (c)			
Beverages	$ 75	$ 323	$ 195
Snack Foods	–	82	12
Restaurants	1	70	148
	$ 76	$ 475	$ 355
United States	$ 16	$ 73	$ 88
International	60	402	267
	$ 76	$ 475	$ 355
Identifiable Assets			
Beverages	$ 9,816	$10,032	$ 9,566
Snack Foods	6,279	5,451	5,044
Restaurants	6,435	6,759	7,203
Investments in Unconsolidated Affiliates	1,375	1,635	1,295
Corporate	607	1,555	1,684
	$24,512	$25,432	$24,792

GEOGRAPHIC AREAS (d)

	Net Sales			Segment Operating Profit (Loss)			Identifiable Assets		
	1996	1995	1994	1996(e)	1995(e)	1994	1996	1995	1994
Europe	$ 2,865	$ 2,783	$ 2,177	$ (90)	$ (65)	$ 17	$ 3,159	$ 3,127	$ 3,062
Canada	1,340	1,299	1,244	134	86	82	1,354	1,344	1,342
Mexico	1,334	1,228	2,023	116	80	261	661	637	995
Other	3,658	3,437	2,782	(73)	342	258	2,628	2,629	2,196
Total International	9,197	8,747	8,226	87	443	618	7,802	7,737	7,595
United States	22,448	21,508	20,125	2,922	2,728	2,706	14,728	14,505	14,218
Combined Segments	$31,645	$30,255	$28,351	$3,009	$3,171	$3,324	22,530	22,242	21,813
Investments in Unconsolidated Affiliates							1,375	1,635	1,295
Corporate							607	1,555	1,684
							$24,512	$25,432	$24,792

(a) Included immaterial, noncash amounts related to capital leases, largely in the restaurants segment.

(b) See Items Affecting Comparability on page 43.

(c) Included immaterial noncash amounts related to treasury stock and debt issued.

(d) The results of centralized concentrate manufacturing operations in Puerto Rico and Ireland have been allocated based upon sales to the respective geographic areas.

(e) The unusual impairment, disposal and other charges reduced combined segment operating profit by $822 (United States - $246, Europe - $69, Mexico - $4, Other - $503) in 1996 and $503 (United States - $302, Europe - $119, Mexico - $21, Canada - $30, Other - $31) in 1995 (see Items Affecting Comparability on page 43).

Note 20 – Selected Quarterly Financial Data

($ in millions except per share amounts, unaudited)

	First Quarter (12 Weeks)		Second Quarter (12 Weeks)		Third Quarter (12 Weeks)		Fourth Quarter (16 Weeks)		Full Year (52 Weeks)	
	1996(a)	1995(a)	**1996**(a)	1995	**1996**(a)	1995(a)	**1996**(a)	1995(a)	**1996**(a)	1995(a)
Net sales	**$6,554**	6,157	**$ 7,691**	7,245	**$7,867**	7,648	**$9,533**	9,205	**$31,645**	30,255
Gross profit	**$3,348**	3,135	**$ 3,995**	3,694	**$4,050**	3,897	**$4,869**	4,643	**$16,262**	15,369
Unusual impairment, disposal and other charges(b)	**$ 26**	–	**–**	–	**$ 390**	–	**$ 406**	520	**$ 822**	520
Operating profit	**$ 706**	629	**$ 986**	869	**$ 560**	1,031	**$ 294**	458	**$ 2,546**	2,987
Net income	**$ 394**	321	**$ 583**	487	**$ 144**	617	**$ 28**	181	**$ 1,149**	1,606
Net income per share	**$ 0.24**	0.20	**$ 0.36**	0.30	**$ 0.09**	0.39	**$ 0.03**	0.11	**$ 0.72**	1.00
Cash dividends declared per share	**$ 0.10**	0.09	**$ 0.115**	0.10	**$0.115**	0.10	**$0.115**	0.10	**$ 0.445**	0.39
Stock price per share(c)										
High	**$ 33 3/8**	20 1/2	**$ 34 1/2**	24 1/2	**$ 35 5/8**	23 5/8	**$ 32 7/8**	29	**$ 35 5/8**	29
Low	**$ 27 1/2**	16 15/16	**$29 11/16**	19 1/2	**$ 28 1/4**	21 13/16	**$ 28 1/8**	23 1/8	**$ 27 1/2**	16 15/16
Close	**$ 31 5/8**	20 3/16	**$ 33 1/8**	23 5/16	**$ 28 3/8**	22 7/8	**$ 29 5/8**	27 15/16	**$ 29 5/8**	27 15/16

Notes:

(a) Included certain items affecting comparability as summarized below. Net refranchising gains represent gains from sales of restaurants to franchisees in excess of costs of closing other restaurants. The depreciation and amortization reduction for the first three quarters of 1996 arose from the adoption of SFAS 121, at the beginning of the fourth quarter of 1995, which reduced the carrying amount of certain long-lived assets to be held and used in the business (see Note 4). The restaurant impairment charges represent the ongoing application of SFAS 121 (see Note 4).

1996

	Pre-Tax	After-Tax	Per Share
Net refranchising gains			
First quarter	$ 46	$28	$0.02
Second quarter	38	25	0.01
Third quarter	25	15	0.01
Fourth quarter	(10)	(7)	–
Full year	$ 99	$61	$0.04
Depreciation and amortization reduction			
First quarter	$ 15	$10	$0.01
Second quarter	18	12	–
Third quarter	13	7	0.01
Full year	$ 46	$29	$0.02
Restaurant impairment charges			
Second quarter	$ 18	$12	$0.01
Fourth quarter	44	28	0.02
Full year	$ 62	$40	$0.03

1995

	Pre-Tax	After-Tax	Per Share
Net refranchising gains			
First quarter	$ 3	$ 2	$ –
Second quarter	–	–	–
Third quarter	(3)	(2)	–
Fourth quarter	55	29	0.02
Full year	$55	$29	$0.02

(b) Included unusual impairment, disposal and other charges (see Note 3) as follows:

1996

	Pre-Tax	After-Tax	Per Share
International beverages			
Impairment, disposal and other charges			
Third quarter	$390	$376	$0.23
Fourth quarter	64	53	0.04
Full year	$454	$429	$0.27
Restructuring			
Fourth quarter	$122	$ 98	$0.06
Full year	$122	$ 98	$0.06
Disposal of non-core restaurant businesses			
First quarter	$ 26	$ 17	$0.01
Fourth quarter	220	172	0.11
Full year	$246	$189	$0.12
Total			
First quarter	$ 26	$17	$0.01
Third quarter	390	376	0.23
Fourth quarter	406	323	0.21
Full year	$822	$716	$0.45

1995

	Pre-Tax	After-Tax	Per Share
Initial impact of adopting SFAS 121			
Fourth quarter	$520	$384	$0.24
Full year	$520	$384	$0.24
Total			
Fourth quarter	$520	$384	$0.24
Full year	$520	$384	$0.24

(c) Represented the high, low and closing prices for a share of PepsiCo capital stock on the New York Stock Exchange adjusted for the 1996 two-for-one stock split (see Note 1).

Note 21 – Subsequent Events

In January 1997, PepsiCo announced that it would pursue a plan to spin off its restaurant businesses to its shareholders as an independent publicly-traded company. The new company will include both the U.S. and international operations of PepsiCo's core restaurant concepts – Pizza Hut, Taco Bell and KFC. PepsiCo is exploring the possibility that PFS, our restaurant distribution operation, will be sold separately. Subject to a tax ruling by the Internal Revenue Service that would allow the spin-off to be tax-free to shareholders, various regulatory approvals, appropriate stock market conditions for distribution, and final approval from PepsiCo's Board of Directors, PepsiCo expects to complete these activities by the end of 1997.

Management's Responsibility for Financial Statements

To Our Shareholders:

Management is responsible for the reliability of the consolidated financial statements and related notes, which have been prepared in conformity with generally accepted accounting principles and include amounts based upon our estimates and assumptions, as required. The financial statements have been audited and reported on by our independent auditors, KPMG Peat Marwick LLP, who were given free access to all financial records and related data, including minutes of the meetings of the Board of Directors and Committees of the Board. We believe that management representations made to the independent auditors were valid and appropriate.

PepsiCo maintains a system of internal control over financial reporting, designed to provide reasonable assurance as to the reliability of the financial statements, as well as to safeguard assets from unauthorized use or disposition. The system is supported by formal policies and procedures, including an active Code of Conduct program intended to ensure employees adhere to the highest standards of personal and professional integrity. PepsiCo's internal audit function monitors and reports on the adequacy of and compliance with the internal control system, and appropriate actions are taken to address significant control deficiencies and other opportunities for improving the system as they are identified. The Audit Committee of the Board of Directors, which is composed solely of outside directors, provides oversight to our financial reporting process and our controls to safeguard assets through periodic meetings with our independent auditors, internal auditors and management. Both our independent auditors and internal auditors have free access to the Audit Committee.

Although no cost-effective internal control system will preclude all errors and irregularities, we believe our controls as of December 28, 1996 provide reasonable assurance that the financial statements are reliable and that our assets are reasonably safeguarded.

Report of Independent Auditors

Board of Directors and Shareholders
PepsiCo, Inc.

We have audited the accompanying consolidated balance sheet of PepsiCo, Inc. and Subsidiaries as of December 28, 1996 and December 30, 1995 and the related consolidated statements of income, cash flows and shareholders' equity for each of the years in the three-year period ended December 28, 1996. These consolidated financial statements are the responsibility of PepsiCo, Inc.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PepsiCo, Inc. and Subsidiaries as of December 28, 1996 and December 30, 1995, and the results of its operations and its cash flows for each of the years in the three-year period ended December 28, 1996, in conformity with generally accepted accounting principles.

As discussed in Note 4 to the consolidated financial statements, PepsiCo, Inc. in 1995 adopted the provisions of the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." As discussed in Notes 15 and 13 to the consolidated financial statements, PepsiCo, Inc. in 1994 changed its method for calculating the market-related value of pension plan assets used in the determination of pension expense and adopted the provisions of the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits," respectively.

KPMG Peat Marwick LLP

KPMG Peat Marwick LLP
New York, New York
February 4, 1997

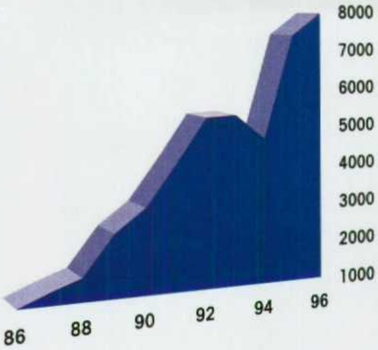
Stock Performance

PepsiCo was formed through the 1965 merger of Pepsi-Cola Company and Frito-Lay, Inc. A $1,000 investment in our stock made at year-end 1986 was worth approximately $7,900 on December 28, 1996, assuming the reinvestment of dividends. This performance represents a compounded annual growth rate of 23%.

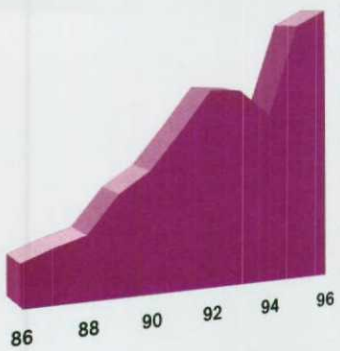
The closing price for a share of PepsiCo capital stock on the New York Stock Exchange was the price as reported by Bloomberg for the fiscal years ending 1986-1996.

Past performance is not necessarily indicative of future returns on investments in PepsiCo capital stock.

Total Return to Shareholders
In $, Assuming Reinvestment of Dividends



Year-End Market Price of Stock
In $



Capital Stock Information

Stock Trading Symbol

PEP

Stock Exchange Listings

The New York Stock Exchange is the principal market for PepsiCo capital stock, which is also listed on the Amsterdam, Midwest, Swiss and Tokyo Stock Exchanges.

Shareholders

At year-end 1996, there were approximately 207,000 shareholders of record.

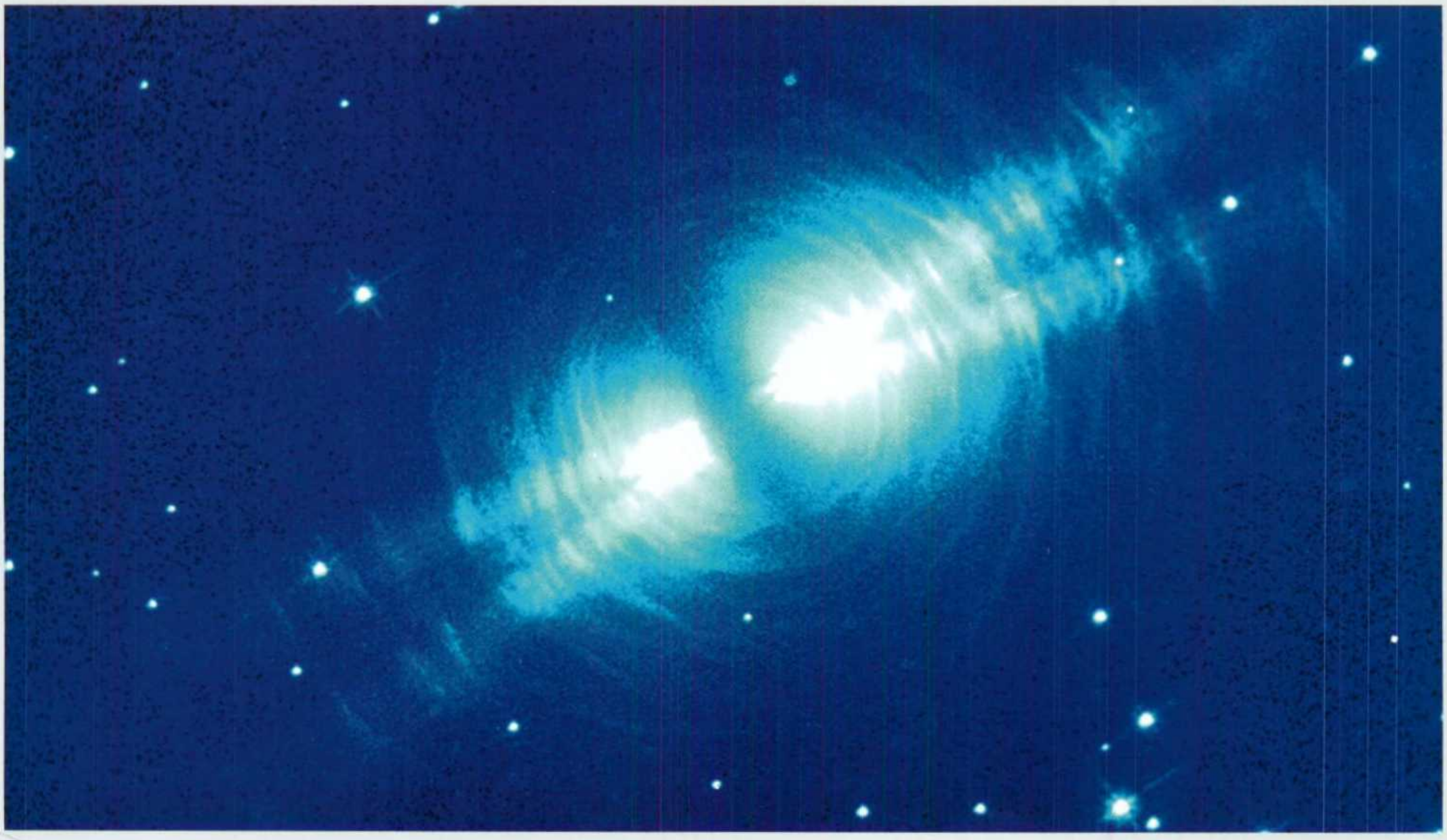
Dividend Policy

Quarterly cash dividends are usually declared in November, January, May and July and paid at the beginning of January and the end of March, June and September. The dividend record dates for 1997 are expected to be March 14, June 13, September 12 and December 12.

Cash Dividends Declared Per Share
In $

Quarterly cash dividends have been paid since PepsiCo was formed in 1965, and dividends paid per share have increased for 24 consecutive years.

"Egg Nebula," located about 3,000 light-years away, shows a pair of "searchlight" beams emerging from a star, which is hidden by a dense cocoon of dust (the dark band across the center).



Selected Financial Data

(in millions except per share and employee amounts, unaudited)
PepsiCo, Inc. and Subsidiaries

	Growth Rates				
	Compounded		Annual		
	10-Year 1986-96	5-Year 1991-96	1-Year 1995-96	1996(a)(b)	1995(b)(c)
Summary of Operations					
Net sales	13%	10%	5%	$ 31,645	30,255
Operating profit	12%	4%	(15)%	$ 2,546	2,987
Gain on stock offering by an unconsolidated affiliate (k)				–	–
Interest expense, net				(499)	(555)
Income from continuing operations before income taxes and cumulative effect of accounting changes	11%	4%	(16)%	$ 2,047	2,432
Income from continuing operations before cumulative effect of accounting changes	9%	1%	(28)%	$ 1,149	1,606
Cumulative effect of accounting changes (l)				$ –	–
Net income	10%	1%	(28)%	$ 1,149	1,606
Cash Flow Data					
Dividends paid	15%	14%	13%	$ 675	599
Free cash flow (m)	18%	21%	41%	$ 1,544	1,095
Share repurchases				$ 1,651	541
Acquisitions and investments in unconsolidated affiliates				$ 75	466
Per Share Data and Other Share Information					
Income from continuing operations before cumulative effect of accounting changes	9%	1%	(28)%	$ 0.72	1.00
Cumulative effect of accounting changes (l)				$ –	–
Net income	10%	1%	(28)%	$ 0.72	1.00
Cash dividends declared	16%	14%	14%	$ 0.445	0.39
Book value per share at year-end	13%	4%	(8)%	$ 4.29	4.64
Market price per share at year-end	21%	12%	6%	$ 29 5/8	27 15/16
Number of shares repurchased				54.2	24.6
Shares outstanding at year-end				1,545	1,576
Average shares outstanding used to calculate income (charge) per share (n)				1,606	1,608
Balance Sheet					
Total assets	12%	5%	(4)%	$ 24,512	25,432
Long-term debt	12%	2%	(1)%	$ 8,439	8,509
Total debt (o)	11%	1%	(8)%	$ 8,465	9,215
Shareholders' equity				$ 6,623	7,313
Statistics					
Return on average shareholders' equity (p)				16%	23
Market net debt ratio (q)				18%	18
Historical cost net debt ratio (r)				48%	46
Employees	9%	7%	1%	486,000	480,000

All share and per share amounts reflect a two-for-one stock split in 1996 and three-for-one stock splits in 1990 and 1986. Additionally, PepsiCo made numerous acquisitions in most years presented and a few divestitures in certain years. Such transactions did not materially affect the comparability of PepsiCo's operating results for the periods presented, except for certain large acquisitions made in 1986, 1988 and 1989 and the $246 ($189 after-tax or $0.12 per share) of charges included in 1996 as a result of the decisions made to dispose of PepsiCo's non-core U.S. restaurant businesses. See Note 3.

(a) Included unusual impairment, disposal and other charges of $822 ($716 after-tax or $0.45 per share). See Note 3. Also included the benefit of reduced depreciation and amortization expense for the first three quarters of 1996 of $46 ($29 after-tax or $0.02 per share) as a result of the initial impact of adopting SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," at the beginning of the fourth quarter of 1995. See (c) below.

(b) Included a net refranchising gain of $99 ($61 after-tax or $0.04 per share) and $55 ($29 after-tax or $0.02 per share) in 1996 and 1995, respectively.

(c) Included the initial, noncash charge of $520 ($384 after-tax or $0.24 per share) upon adoption of SFAS 121 at the beginning of the fourth quarter. As a result of the reduced carrying amount of certain long-lived assets to be held and used in the business, depreciation and amortization expense for the fourth quarter was reduced by $21 ($15 after-tax or $0.01 per share). See Note 4.

(d) Included a benefit of changing to a preferable method for calculating the market-related value of plan assets in 1994, which reduced full-year pension expense by $35 ($22 after-tax or $0.01 per share).

(e) Fiscal years 1994 and 1988 each consisted of 53 weeks. Normally, fiscal years consist of 52 weeks; however, because the fiscal year ends on the last Saturday in December, a week is added every 5 or 6 years. The fifty-third week increased 1994 earnings by approximately $54 ($35 after-tax or $0.02 per share) and 1988 earnings by approximately $23 ($16 after-tax or $0.01 per share).

(f) Included a $30 charge ($0.02 per share) to increase net deferred tax liabilities as of the beginning of 1993 for a 1% statutory income tax rate increase due to 1993 U.S. Federal tax legislation.

(g) Included $193 ($129 after-tax or $0.08 per share) in unusual charges to reorganize and streamline worldwide beverages and certain International snack foods operations.

(h) Included increased postretirement benefits expense of $52 ($32 after-tax or $0.02 per share) as a result of adopting SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." Included the impact of adopting SFAS 109, "Accounting for Income Taxes," which reduced pre-tax income by $21 and the provision for income taxes by $34.

(i) Included $170 in unusual charges ($120 after-tax or $0.07 per share) primarily to streamline operations in worldwide snack foods and KFC in the U.S.

(j) Included $83 in unusual charges ($49 after-tax or $0.03 per share) for costs of closing restaurants, U.S. trade receivables exposures, accelerated contributions to the PepsiCo Foundation and a reduction in the carrying amount of an unconsolidated international Pizza Hut affiliate.

1994[d][e]	1993[f]	1992[g][h]	1991[i]	1990[j]	1989	1988[e]	1987	1986
28,351	24,935	21,885	19,218	17,516	15,049	12,381	11,018	9,017
3,201	2,907	2,371	2,112	2,042	1,773	1,342	1,128	829
18	–	–	–	118	–	–	–	–
(555)	(484)	(472)	(452)	(506)	(433)	(222)	(182)	(139)
2,664	2,423	1,899	1,660	1,654	1,340	1,120	946	690
1,784	1,588	1,302	1,080	1,091	901	762	605	464
(32)	–	(928)	–	–	–	–	–	–
1,752	1,588	374	1,080	1,077	901	762	595	458
540	462	396	343	294	242	199	172	160
710	653	824	593	561	672	978	418	301
549	463	32	195	148	–	72	19	158
316	1,011	1,210	641	631	3,297	1,416	372	1,680
1.11	0.98	0.81	0.68	0.69	0.57	0.49	0.39	0.30
(0.2)	–	(0.58)	–	–	–	–	–	–
1.09	0.98	0.23	0.68	0.68	0.57	0.49	0.38	0.29
0.35	0.305	0.255	0.23	0.192	0.16	0.133	0.112	0.105
4.34	3.97	3.35	3.52	3.11	2.46	2.01	1.61	1.32
18 1/8	20 15/16	21 1/8	16 7/8	12 7/8	10 43/64	6 5/8	5 41/64	4 3/8
30.0	24.8	2.0	12.8	12.6	–	12.4	3.8	40.4
1,580	1,598	1,598	1,578	1,577	1,582	1,577	1,562	1,562
1,608	1,620	1,613	1,605	1,597	1,592	1,580	1,579	1,573
24,792	23,706	20,951	18,775	17,143	15,127	11,135	9,023	8,027
8,841	7,443	7,965	7,806	5,900	6,077	2,656	2,579	2,633
9,519	9,634	8,672	8,034	7,526	6,943	4,107	3,225	2,865
6,856	6,339	5,356	5,545	4,904	3,891	3,161	2,509	2,059
27	27	24	21	25	26	27	27	24
26	22	19	21	24	26	24	22	28
49	50	49	51	51	54	43	41	46
471,000	423,000	372,000	338,000	308,000	266,000	235,000	225,000	214,000

(k) The $18 gain ($17 after-tax or $0.01 per share) in 1994 arose from a public share offering by BAESA, an unconsolidated franchised bottling affiliate in South America. See Note 17. The $118 gain ($53 after-tax or $0.03 per share) in 1990 arose from an initial public offering of new shares by an unconsolidated KFC joint venture in Japan and a sale by PepsiCo of a portion of its shares.

(l) Represented the cumulative effect of adopting in 1994 SFAS 112, "Employers' Accounting for Postemployment Benefits," and changing to a preferable method for calculating the market-related value of plan assets used in determining the return-on-asset component of annual pension expense and the cumulative net unrecognized gain or loss subject to amortization (see Notes 13 and 15, respectively) and adopting in 1992 SFAS 106 ($575 ($357 after-tax or $0.22 per share)) and SFAS 109 ($571 tax charge ($0.35 per share)). Prior years were not restated for these changes in accounting.

(m) Defined as net cash provided by operating activities reduced by cash dividends paid and adjusted for the following investing activities: capital spending, refranchising of restaurants, sales of property, plant and equipment and other, net. Cash flows from other investing and financing activities, which are not presented, are an integral part of total cash flow activity.

(n) See Net Income Per Share in Note 1.

(o) Total debt includes short-term borrowings and long-term debt, which for 1987 through 1990 included a nonrecourse obligation.

(p) The return on average shareholders' equity is calculated using income from continuing operations before cumulative effect of accounting changes.

(q) The market net debt ratio represents net debt as a percent of net debt plus the market value of equity, based on the year-end stock price. Net debt is total debt, which for this purpose includes the present value of long-term operating lease commitments, reduced by the pro forma remittance of investment portfolios held outside the U.S. For 1987 through 1990, total debt was also reduced by the nonrecourse obligation in the calculation of net debt.

(r) The historical cost net debt ratio represents net debt (see (q) above) as a percent of capital employed (net debt, other liabilities, deferred income taxes and shareholders' equity).

PepsiCo, Inc. Board of Directors

Sharon Percy Rockefeller, 52, President and Chief Executive Officer of WETA public stations in Washington, D.C., a position she has held since 1989. Elected 1986. Mrs. Rockefeller was a member of the Board of Directors of WETA from 1985 until 1989 and a member of the Board of Directors of the Corporation for Public Broadcasting until 1992. Mrs. Rockefeller has also been a Member of the Democratic National Committee. Director: Public Broadcasting Service, Washington, D.C.

Ray L. Hunt, 53, Chairman and Chief Executive Officer of Hunt Oil Company and Chairman, Chief Executive Officer and President, Hunt Consolidated, Inc. Elected 1996. Mr. Hunt began his association with Hunt Oil Company in 1958 and has held his current position since 1976. Director: Dresser Industries, Inc.; Security Capital Group; Ergo Science, Inc.; Electronic Data Systems Corporation.

P. Roy Vagelos, 67, former Chairman of the Board and Chief Executive Officer of Merck & Co., Inc. Elected 1992. Dr. Vagelos joined Merck in 1975 and became President and Chief Executive Officer in 1985. He became a director in 1984 and Chairman in 1986, retiring from that position in 1994. Director: The Estee Lauder Companies, Inc.; The Prudential Insurance Company of America; McDonnell Douglas Corporation; and Chairman of the Board of Regeneron Pharmaceuticals Inc.

Craig E. Weatherup, 51, Chairman and Chief Executive Officer of the Pepsi-Cola Company since 1996. Elected 1996. Mr. Weatherup joined Pepsi-Cola in 1974. He was named Senior Vice President, Sales and Marketing of the Pepsi-Cola Group in 1982, President of the division in 1986, President of Pepsi-Cola Company in 1988, President and Chief Executive Officer of Pepsi-Cola North America in 1991 and served as PepsiCo's President in 1996. Director: Federated Department Stores, Inc.

John F. Akers, 62, former Chairman of the Board and Chief Executive Officer, International Business Machines Corporation. Elected 1991. Mr. Akers joined IBM in 1960 and was its Chairman and Chief Executive Officer from 1986 to 1993. Director: Hallmark Cards, Inc.; Lehman Brothers Holdings, Inc.; The New York Times Company; Springs Industries, Inc.; W.R. Grace & Co.; Zurich Insurance Company - U.S.

Wayne Calloway, 61, former Chairman of the Board and Chief Executive Officer, PepsiCo, Inc. Elected 1983. Mr. Calloway joined PepsiCo in 1967. He became President and Chief Operating Officer of Frito-Lay, Inc. in 1976 and Chief Executive Officer of Frito-Lay, Inc. in 1978. Mr. Calloway became Executive Vice President and Chief Financial Officer of PepsiCo in 1983, President and Chief Operating Officer in 1985 and was Chairman and Chief Executive Officer from 1986 until 1996. Director: Citicorp; General Electric Company; Exxon Corporation.

Robert E. Allen, 62, Chairman of the Board and Chief Executive Officer, AT&T Corp. Elected 1990. Mr. Allen began his career at AT&T in 1957. He was elected President and Chief Operating Officer in 1986 and assumed his present responsibilities in 1988. Director: Bristol-Myers Squibb Company; Chrysler Corporation.

John J. Murphy, 65, former Chairman of the Board and Chief Executive Officer, Dresser Industries. Elected 1984. Chairman, Compensation Committee. Mr. Murphy joined Dresser in 1952 and was elected Chairman and Chief Executive Officer in 1983. He served as Chief Executive Officer until November 1995 and as Chairman until December 1996. Director: NationsBank Corporation; Kerr McGee Corporation; CARBO Ceramics Inc.

Steven S Reinemund, 48, Chairman and Chief Executive Officer of the Frito-Lay Company. Elected 1996. Mr. Reinemund began his career with PepsiCo as a senior operating officer of Pizza Hut, Inc. in 1984. He became President and Chief Executive Officer of Pizza Hut in 1986, President and Chief Executive Officer of Pizza Hut Worldwide in 1991, President and Chief Executive Officer of Frito-Lay, Inc. in 1992 and assumed his current position in 1996. Director: Provident Life & Accident Insurance Co.

Arnold R. Weber, 67, Chancellor, Northwestern University. Elected 1978. Chairman: Audit Committee. Dr. Weber was the University's President from 1985 to 1995. He has held various government positions, including Executive Director of the Cost of Living Council and Associate Director of the Office of Management and Budget. Director: Aon Corp.; Burlington Northern, Inc.; Inland Steel Company; The Tribune Co.; Deere Co.

Roger A. Enrico, 52, Chief Executive Officer and Chairman of the Board. Elected 1987. Mr. Enrico joined PepsiCo in 1971. He became President and Chief Executive Officer of PepsiCo Worldwide Beverages in 1986, Chairman and Chief Executive Officer of PepsiCo Worldwide Foods in 1992. In addition to his duties as PepsiCo's Chairman and CEO, he is also Chairman and Chief Executive Officer, PepsiCo Worldwide Restaurants, a position he has held since 1994. Director: Dayton Hudson Corporation; the A. H. Belo Corporation; The Prudential Insurance Company of America.

Karl M. von der Heyden, 60, was elected Chief Financial Officer and Vice Chairman of the Board in September 1996. Mr. von der Heyden was Cochairman and Chief Executive Officer of RJR Nabisco from March through May 1993 and Chief Financial Officer from 1989 to 1993. He served as President and Chief Executive Officer of Metallgesellschaft Corp. from 1993 to 1994. Mr. von der Heyden has also been a senior advisor to the Clipper Group, a private merchant bank, since 1994. From 1974 to 1980, Mr. von der Heyden worked for PepsiCo in various management capacities. Director: Federated Department Stores, Inc.

Franklin A. Thomas, 62, Consultant to the TFF Study Group, a nonprofit organization assisting development in southern Africa. Elected 1994. From 1979 to 1996 he was President of the Ford Foundation. From 1967 to 1977, Mr. Thomas was President and Chief Executive Officer of the Bedford-Stuyvesant Restoration Corporation. From 1977 to 1979, he had a private law practice in New York City. Director: ALCOA; Citicorp; Cummins Engine Company, Inc.; Lucent Technologies.

Principal Divisions and Corporate Officers

Listings include age and years of PepsiCo experience.

Executive Offices
PepsiCo, Inc.
Purchase, New York 10577
(914) 253-2000

Cofounder of PepsiCo, Inc.
Donald M. Kendall
49 years of PepsiCo experience

Corporate Officers

Roger A. Enrico
Chairman of the Board and
Chief Executive Officer
52, 25 years

Karl M. von der Heyden
Vice Chairman and Chief Financial Officer
60, 6 years

Randall C. Barnes
Senior Vice President and Treasurer
45, 9 years

William R. Bensyl
Senior Vice President, Personnel
51, 21 years

Robert L. Carleton
Senior Vice President and Controller
56, 22 years

Edward V. Lahey, Jr.
Senior Vice President, General
Counsel and Secretary
58, 31 years

Joseph F. McCann
Senior Vice President, Public Affairs
56, 24 years

Indra K. Nooyi
Senior Vice President, Strategic Planning
41, 3 years

Principal Divisions and Officers

Pepsi-Cola Company
1 Pepsi Way
Somers, New York 10589
(914) 767-6000

Craig E. Weatherup
Chairman and Chief Executive Officer
51, 22 years

Brenda C. Barnes
President and Chief Executive Officer
Pepsi-Cola North America
43, 21 years

Peter M. Thompson
President and Chief Operating Officer
Pepsi-Cola Company International
50, 6 years

Frito-Lay Company
7701 Legacy Drive
Plano, Texas 75024
(972) 334-7000

Steven S Reinemund
Chairman and Chief Executive Officer
48, 12 years

Brock H. Leach
President and Chief Executive Officer
Frito-Lay North America
38, 14 years

Bill McLaughlin
President and Chief Operating Officer
Frito-Lay Europe
40, 8 years

Rogelio Rebolledo
President and Chief Operating Officer
Frito-Lay Latin America and Asia Pacific
52, 20 years

Pizza Hut, Inc.
14841 Dallas Parkway
Dallas, Texas 75240
(972) 338-7700

David C. Novak
Group President and Chief Executive Officer
44, 10 years

Kentucky Fried Chicken Corporation
1441 Gardiner Lane
Louisville, Kentucky 40213
(502) 456-8300

David C. Novak
Group President and Chief Executive Officer
44, 10 years

Taco Bell Corp.
17901 Von Karman
Irvine, California 92714
(714) 863-4500

John Antioco
President and Chief Executive Officer
47, less than one year

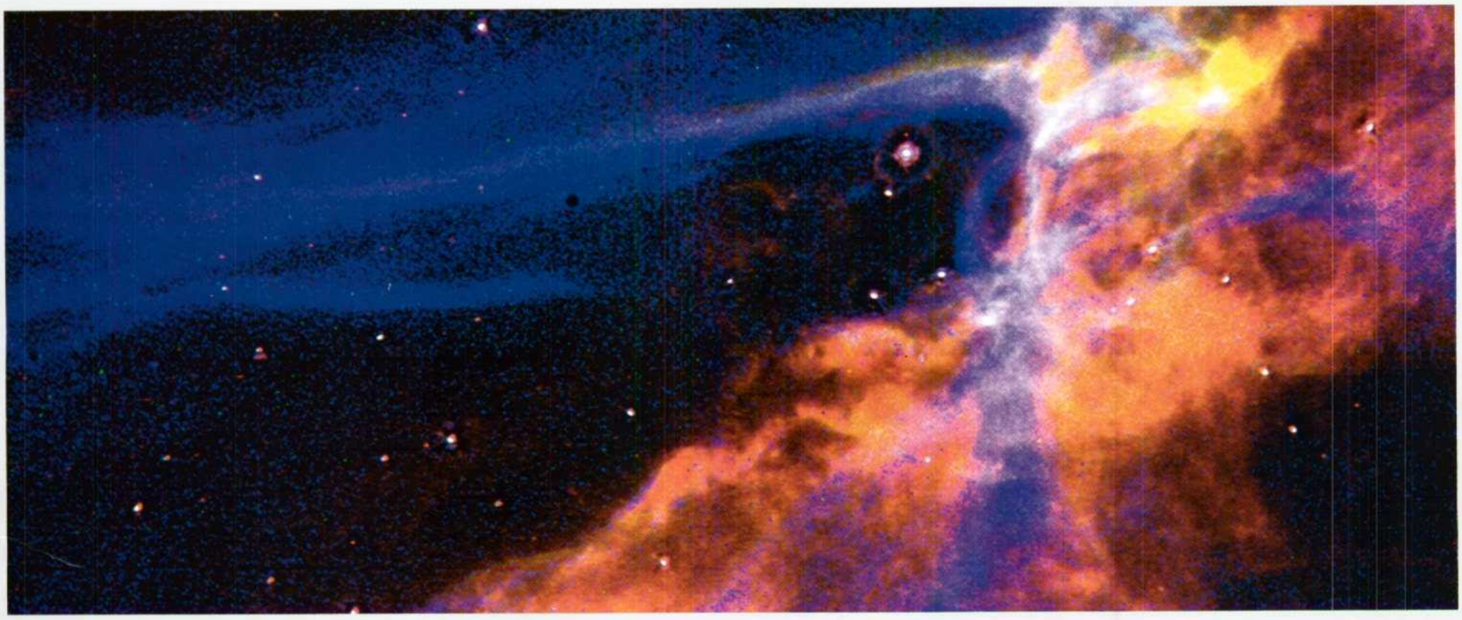
PepsiCo Restaurants International
14841 Dallas Parkway
Dallas, Texas 75240
(972) 338-7700

James H. O'Neal
Group President and Chief Executive Officer
59, 30 years

PepsiCo Food Systems Worldwide
14841 Dallas Parkway
Dallas, Texas 75240
(972) 338-7700

Robert C. Hunter
President and Chief Executive Officer
48, 22 years

"Cygnus Loop" is a remnant from a colossal stellar explosion that occurred about 15,000 years ago. It's 2,600 light-years away and within our Milky Way galaxy.



Shareholder Information

Annual Meeting

The Annual Meeting of Shareholders will be held at PepsiCo World Headquarters on Anderson Hill Road, Purchase, New York at 11 a.m. (EDT), Wednesday, May 7, 1997. Proxies for the meeting will be solicited by an independent proxy solicitor. This Annual Report is not part of the proxy solicitation.

Inquiries Regarding Your Stock Holdings

Registered Shareholders (shares held by you in your name) should address communications concerning statements, dividend payments, address changes, lost certificates and other administrative matters to:

PepsiCo, Inc. c/o Bank of Boston P.O. Box 9155 Boston, MA 02205-9155 Telephone: (800) 226-0083	or	Manager, Shareholder Relations PepsiCo, Inc. Purchase, NY 10577 Telephone: (914) 253-3055

In all correspondence or telephone inquires, please mention PepsiCo, your name **as printed on your stock certificate**, your social security number, your address and telephone number.

Beneficial Shareholders (shares held in the name of your bank or broker) should direct communications on all administrative matters to your stockbroker.

SharePower Participants (employees with SharePower options) should address all questions regarding your account, outstanding options or shares received through option exercises to:

Merrill Lynch/SharePower
Stock Option Plan Services
P.O. Box 30466
New Brunswick, NJ 08989-0446
Telephone: (800) 637-6713 (U.S., Puerto Rico and Canada)
(908) 469-8877 (all other locations)

In all correspondence, please provide your account number (for U.S. citizens, this is your social security number), your address, your telephone number and mention PepsiCo SharePower. For telephone inquiries, please have a copy of your most recent statement available.

Employee Benefit Plan Participants:

Capital Stock Purchase Plan	(800) 227-4015
SaveUp (formerly 401(k) or Long-term Savings)	(800) 227-4015
P.O. Box 9108	(617) 472-3127
Boston, MA 02209	(outside U.S.)
ESOP	(800) 227-4015

Please have a copy of your most recent statement available when calling. Press *Q for a customer service representative and give the representative the name of the Plan.

Shareholder Services

Dividend Reinvestment Plan

A brochure explaining this convenient plan, for which PepsiCo pays all administrative costs, is available from our transfer agent:

PepsiCo, Inc.
c/o Bank of Boston
P.O. Box 9156
Boston, MA 02205-9156 Telephone: (800) 226-0083

Direct Deposit of Dividends

Information on the Direct Deposit service is available from our transfer agent at this address:

PepsiCo, Inc.
c/o Bank of Boston
P.O. Box 9155
Boston, MA 02205-9155 Telephone: (800) 226-0083

Low-Cost Investment Plan

Investors may purchase their initial five shares of stock through NAIC's Low-Cost Investment Plan. For details contact:

National Association of Investors Corporation (NAIC)
711 West Thirteen Mile Road
Madison Heights, MI 48071 Telephone: (810) 583-NAIC (6242)

Financial and Other Information

PepsiCo's 1997 quarterly earnings releases are expected to be issued the week of April 28, July 21, and October 13, 1997 and February 2, 1998.

Earnings and other financial results, corporate news, information on the spin-off of the restaurant businesses and other company information are available on PepsiCo's web site: **http://www.pepsico.com**

Copies of PepsiCo's SEC Form 8-K, 10-K and 10-Q reports, quarterly earnings releases and Environmental Report are available free of charge. Contact PepsiCo's Manager of Shareholder Relations at (914) 253-3055.

Securities analysts, portfolio managers, representatives of financial institutions and other individuals with questions regarding PepsiCo's performance are invited to contact:

Margaret D. Moore
Vice President, Investor Relations
PepsiCo, Inc.
Purchase, NY 10577 Telephone: (914) 253-3035

Independent Auditors

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345 Park Avenue
New York, NY 10154 Telephone: (212) 758-9700

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Photo captions written with the assistance of Dr. Neil de Grasse Tyson, the Frederick P. Rose Director of New York City's Hayden Planetarium and Visiting Research Scientist and Lecturer, Department of Astrophysics, Princeton University.

This page:
The young "Hourglass Nebula" is located about 8,000 light-years away.

Back cover:
At Bottom: The Hubble Space Telescope.
At Top: The planet Saturn is nearly one billion miles away. With Hubble we can see details as small as 450 miles across.


THANK YOU,
HUBBLE TELESCOPE